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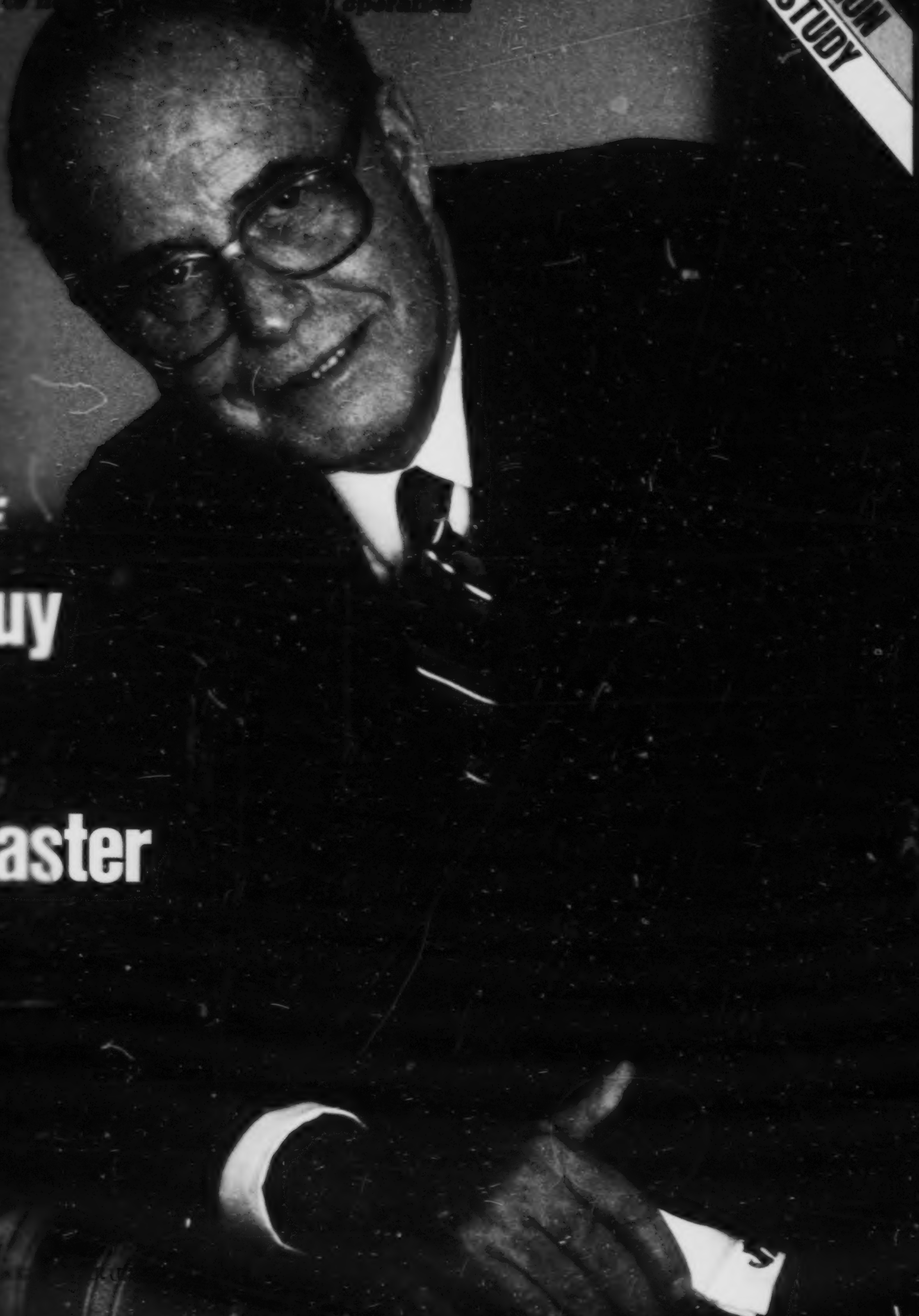
NRMA CONVENTION
1984 TAX ACT STUDY



ADG's Joseph Johnson:

Nice guy but stern taskmaster

Chain Store Age EXECUTIVE Volume 61, No. 1/January 1985

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Basic similarities of the family rack store and the one-price outlet account for their mutual success, according to Pic 'N Pay president Edward Karp.

"They're both self-service; they have the same price points, and they offer value because of the low expense factor and the volume [buying]," he says. Further, both Barett and Pic 'N Pay stores operate in 2,500-3,500 sq. ft., high-traffic locations, making the two businesses a good match. As might be expected, some Barett stores are converted Pic 'N Pay units.

What puzzles many industry experts--and no doubt concerns the box-store operators—is whether the rack chains are squeezing more business out of their traditional market segment or taking customers away from higher-price outlets. And, they wonder, how much longer can the self-service sector accelerate before it stalls?

To some, the headlong expansion of concepts like the $13.88 store is an inexplicable, possibly ill-fated phenomenon. "I don't know where the business is coming from," First Boston's Gilliam says, adding that she doesn't think there is any trading down to speak of. "To me, it looks like something that is going to explode and die."

Mangione of the VFRA suggests that the rack sector might have created new business, accounting for the lion's share of domestic footwear consumption growth in recent years. (Commerce Department estimates show that per capita spending on footwear rose to $101.60 in 1983 from $87.89 in 1982, with price increases in the interim described as "minimal.")

Of course, not all the big rack operations have been stellar performers. Analysts note the unsteady course of Morse Shoe's giant Fayva chain, which was trimmed by a net 139 units in 1983. Morse reported flat margins in the first half of 1984, due in part to promotional activity in the Fayva division. Some sources contend that Fayva's marketing aimed too high.

"They went after a customer above where we are. They've seen themselves competing very head on with Kinney, Edison Bros. and the department store business," Stutzman says. "That's a tough bunch of people if you're going to hit heads with them."

With its average shoe selling at $14, Volume tries to squeeze in above the discounters and below the box stores. Its target customer is female, under 35 years of age, married and with children living at home, backed by a household income of $20,000 or less and responsible for 80% of her family's footwear purchases. Stutzman promises Volume will remain faithful to that consumer, even though research is under way to check management's assumption that the customer base is broadening upward.

Nevertheless, Stutzman is convinced that Volume is raiding other shoe retailers for business. "We've got to be getting it out of some of the mass merchandisers, out of the discounters, out of the conventional box stores—it's got to be coming from there. Not all of it but some of it. People who are shopping today in self-service stores weren't shopping there five or 10 years ago," he says.

Many in the shoe business share Stutzman's view that the average shopper is no longer averse to buying shoes from a rack.

"The consumer today would rather not have anyone wait on him or her than someone who is discourteous and unknowledgeable," argues William Boettge, president of the National Shoe Retailers Association.

But Cameron I. Anderson, president of Kinney, for one, doubts whether today's booming rack chains pose a long-term threat to his business. "There's no question that they've had growth. But I'm not convinced that they've proved themselves under continuous competitive fire," he says. Historically, he points out, the low-price business has been volatile and littered with casualties. Some of them, such as HRT Industries' Shoe Stop stores, were gobbled up by Volume.

"I do think the market under $15 is a market unto itself," he says, conceding that a good rack store can temporarily impact a Kinney store on certain price-lines.

Stutzman agrees that a Payless store won't truly salvage a nearby Kinney store. "Really impact? No. Share some of their customers with them? Yes. We'll share some of their customers." ■

—Gary Vineberg

RESEARCH STUDY

Survey: 35% don't comply with 1984 Tax Reform Act

Without much fanfare, the Tax Reform Act of 1984—which includes a section invalidating retailing's method of granting different discounts to executives than to nonexecutives—went into effect on Jan. 1.

And, according to a survey by *Chain Store Age Executive* in conjunction with Arthur Young, an international accounting and consulting firm, 35% of retail chains aren't in compliance with the act. The department store segment appears to be the retail group that is most affected by the act as it relates to employee discount policy. At the time of the survey, 4 out of 5 department stores reported a situation that wasn't currently in compliance with the statutes of the new law, compared with 37% of discount stores, 27% of specialty stores and 23% of home centers.

Moreover, the survey discloses, 31% of the retailers haven't any immediate plans to make the necessary changes to be in compliance even though the Internal Revenue Service

Discount offered to executives and nonexecutives*

(among those differentiating between the two)

Per cent discount offered	Nonexecs	Execs	Dept. store nonexecs	Dept. store execs
5%-10%	11%	—	4%	—
11%-15%	11	—	9	—
16%-20%	47	14%	61	9%
21%-25%	3	19	4	22
26%-30%	6	8	—	9
31%-35%	—	6	—	9
36%-40%	—	8	—	4
41%-45%	—	—	—	—
46%-50%	—	3	—	—
10%-20%	11	—	13	—
20%-40%	—	8	—	13
20% + 20%	—	11	—	17
Other	11	22	9	17
Mean	(16.6)	(27.3)	(17)	(26.3)

*Individual percentages may not equal 100% due to rounding

Source: *Chain Store Age Executive* research

IRS
30% off
50% off
20% off

Respondents' perception about company's compliance situation*

Comment	Total	Dept.	Discount	Drug	Home center	Specialty
No change needed	64%	23%	53%	93%	73%	73%
—Policy seems O.K.	57	20	40	87	70	67
—Policy not O.K.	7	3	13	7	3	7
Already changed policy	14	43	10	—	10	7
No plans to change	18	23	37	7	10	17
—Policy seems O.K.	8	—	23	7	3	7
—Policy not O.K.	11	23	13	—	7	10
Insufficient knowledge	4	10	—	—	7	3

*Individual percentages may not equal 100% or net due to rounding
Source: *Chain Store Age Executive* research

set Jan. 1 as the date of the legislation's effectiveness. (Retailers have said the IRS plans to issue more specific regulations relating to retailers later this month even though the law is already in effect.)

Says one specialty store chain owner: "I'm satisfied with the way things are now. I've been in business 53 years and see no reason to change. I didn't even know about the new law."

In fact, 33% of the retailers contacted say they never heard of the act. Only 10% of the retail executives who responded to the survey say they are "very familiar" with the section relating to employee discounts, and 55% say they are "somewhat familiar." This seems to be an indictment of someone: either retailers aren't keeping abreast of changing legislation, or the IRS isn't making sure those affected have been informed. Still, 14% of the chains say they have already changed or planned to change by the Jan. 1 deadline in order to comply with the new law.

Among department store respondents, 23% say they are "very familiar," 70% say they are "somewhat familiar" and 7% weren't familiar at all with the section. Specialty store executives were low on the totem pole with 73% saying they never heard of the employee discount section, while 43% of discount store executives, 20% of drug chains and 23% of home center executives also say they never heard of it.

Of the chains that plan to make changes in their discount policy, 52% plan to offer a single per cent discount to everyone. Other policy changes volunteered by respondents include:

- 14% say no discount will exceed the overall gross margin percentage.
- 14% say alternate benefits are being offered instead of discounts.
- 10% plan to issue withholding statements to employees whose discounts are not in compliance.
- 5% say all divisions will offer the same discount.
- 5% plan to make all the necessary changes.
- 29% say that plans haven't been finalized.

The act, passed by Congress in mid-1984, is an all-encompassing piece of legislation that affects many aspects of taxation—including tax shelters, family wealth transactions and excise taxes. The legislation affecting retailing is but one minor part of the act and zeros in specifically on retailers who grant discounts as an employment benefit.

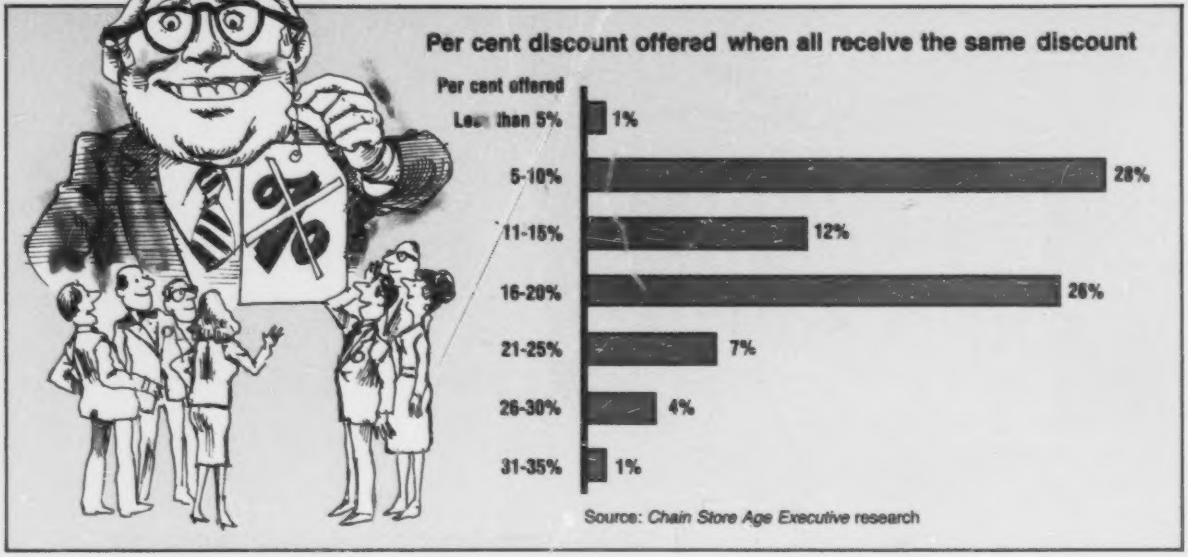
It was included in the legislation after some leading retail chains asked the IRS to exempt employee discount from taxable income. The IRS, in turn, said it would consider that request if retailers would stop their practice of giving different discount percentages to executives than are given to nonexecutives. The IRS added some qualifications:

- Discounts are given to all employees on an equal basis.
- Discounts do not exceed the employer's gross margin percentage for goods sold, or—in the case of services—20% of the retail value of the service.
- Discounts are offered only in the employer's line of business.

The major violation situation, according to the survey, is two or more levels of discounts to employees, differentiating between executives and nonexecutives. The largest practitioner of this violation is the department store category, with 96% saying they grant multiple discounts depending on rank or length of service.

In addition, 35% of all respondents say the discounts they offer are greater than the overall gross margin percentage, while 25% say that the discount depends on the employee's length of service.

Of the total, 40% weren't currently



Source: *Chain Store Age Executive* research

in compliance in 1984, but had plans to be (in compliance) by Jan. 1, 1985. Although 19% say they are in compliance, some of their answers to other questions in the survey indicate they are not.

Major reasons cited in the survey for not being in compliance with the new law include:

- Waiting to hear from corporate headquarters.
- Waiting for IRS regulations.
- Ignorance of the legislation (10% say they don't have enough information to comment).

The survey discloses that department stores may be in the biggest trouble with the IRS if it suddenly cracks down on retailing.

A whopping 80% of department stores aren't currently in compliance with the statutes of the new law, compared with 37% of discounters, 25% of specialty stores, 23% of home centers and 7% of drug chains.

A check of supermarket chains discloses that few offer discounters to employees, especially different discounts to executives and nonexecutives.

Of the total respondents, 24% say they offer different employee discounts to executives and nonexecutives. The department store chains were the highest, with 77% distinguishing between executives and nonexecutives, followed by 23% of discounters, 13% of specialty stores and 3% each for drug stores and home centers.

Overall, retailers offer their nonexecutives an average discount of 16.6%, while executives average 27.3%. Twelve respondents say that owners, store principals or corporate officers get even higher discounts than lower level executives, the highest being between 46% and 50% in the specialty store category.

One specialty store executive says about discounts: "No executives except myself, and I'm the owner." The survey shows that 33% of the chains have additional employee rank categories beyond that of executive and nonexecutive.

Of the total, 12% of the respondents allow some employee discounts larger than the overall gross margin percentage. This is most prevalent among department stores (23%) and discounters (20%).

The survey shows that 71% of the overall chains say they offer the same discounts to everyone from the ceo down to the stockboys. In this category, 28% say they offer discounts ranging between 5% and 10%, 12% say the discounts are between 11% and 15% and 26% say the range is between 16% and 20%.

In the single discount category, department stores have an average employee discount of 19.5%, followed by specialty stores (19.4%), drug stores (12.8%), home centers (12.4%) and discounters (12.2%).

A number of chains offer discounts based on length of time employees are with the company. The average discount per cent is: 16.2% for less than five years, 24.7% for a minimum of 10 years, 26.3% for a minimum of 20 years and 27.3% for employees who have worked 25 years or more with a chain. ■

Level of familiarity*

Degree	Total	Dept.	Discount	Drug	Home center	Specialty
Very familiar	11%	23%	7%	10%	17%	—
—Somewhat familiar	55	70	50	70	60	27%
—Not at all familiar	33	7	43	20	23	73

*Individual percentages may not equal 100% due to rounding
Source: *Chain Store Age Executive* research

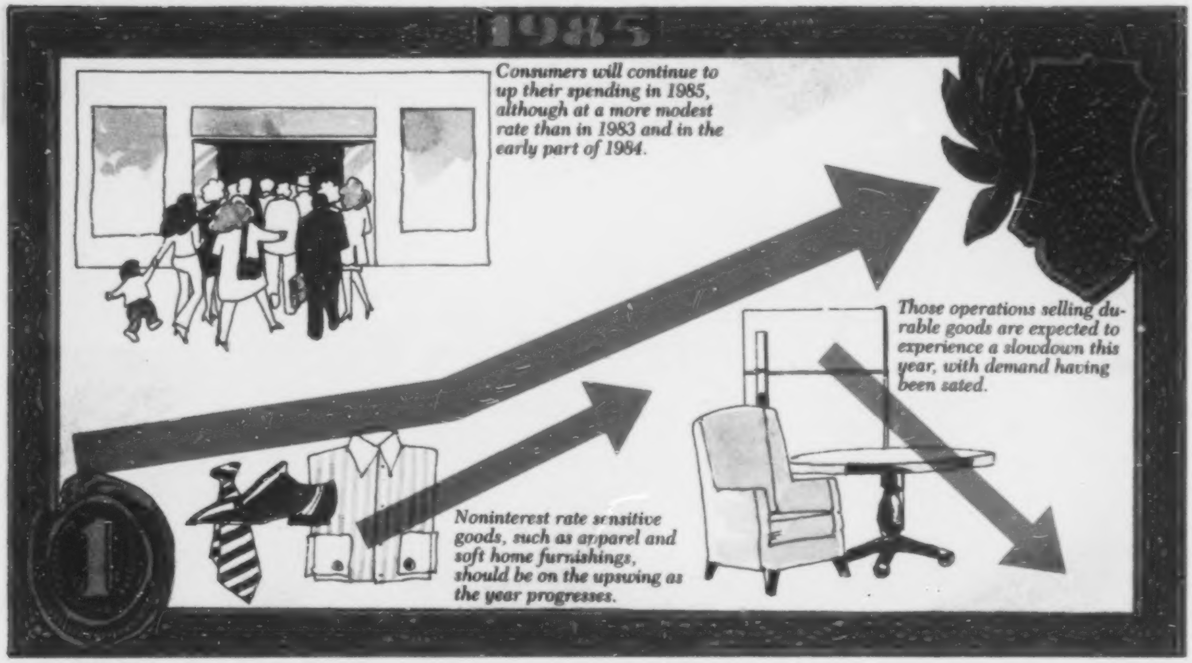
How survey was conducted

A total of 150 interviews were conducted among retail executives located throughout the country, consisting of 30 each from the department store, discount store, drug store, home center and specialty store categories.

Over half (55%) of the executives participating in the survey were chief financial officers. Other titles included: ceo (12%), controller (9%), treasurer (8%), vp-finance (7%) and general counsel (1%).

The average chain participating in the survey has 69 units and reported an annual dollar volume of $168.8 million in its last fiscal year. Of these department stores have an average of 15.8 units and a volume of $247.1 million; home centers have an average of 129.8 units and volume of $205.5 million; discount chains have an average of 38.2 units and $186.5 million volume; drug chains have an average of 133.4 units and $183 million volume, and specialty chains have an average of 26.9 units and $17 million volume.

Taking a conservative stance



Consumers will continue to up their spending in 1985, although at a more modest rate than in 1983 and in the early part of 1984.

Those operations selling durable goods are expected to experience a slowdown this year, with demand having been sated.

Noninterest rate sensitive goods, such as apparel and soft home furnishings, should be on the upswing as the year progresses.

Retailers see retail sales growing at a more modest rate this year, reflecting the overall slowdown in the recovery

Blaming unrealized expectations for the high degree of promotional activity that's been taking place in the industry with somewhat depressing results, it is no wonder that most retailers are adopting a conservative outlook for the upcoming fiscal year. Their premise is that as goes the general economy, so go retail sales.

For example, predicting that growth in the gross national product may fall to as little as 1% during the first and second quarters of 1985, Maurice Segall, president and ceo, Zayre Corp., warns that "Retailers had better be lean and mean going into the first quarter and through the first half." In anticipation, he reports that Zayre has already set up a very flexible inventory open-to-buy program.

Likewise, Edward Finkelstein, chairman and ceo of R. H. Macy, says that "We've planned on a rather sluggish economy" for the early part of this year. Macy's buying programs are being adjusted accordingly.

However, not everyone is quite so pessimistic.

"I'm not one of those gloom-and-doom people," says Herbert Fisher, chairman of Jamesway. "I don't expect a banner year, but I don't think we'll do any worse in 1985 than we did in 1984." Specifically, he is projecting a 17% sales increase in fiscal 1985 with new stores contributing 10% and existing stores accounting for the balance.

Both points of view are likely to be debated by general merchandise retailers when they meet this month at the annual convention of the National Retail Merchants Association, the industry's largest trade group *(see accompanying story)*.

Much of the debate is likely to focus on just how much a general slowing down of the economy will, in fact, impact consumer spending.

At J. C. Penney, Rosalind Wells, manager of corporate economics, does not see a close correlation.

"We don't think perceptions of a slowdown in the economy will hurt retail sales," she says. "Consumers are still in a strong financial position and we expect consumer spending to pick up further this year. There is no reason to expect anything else." Her forecast calls for a consumer spending rise of 3.5% on top of 1984's 5.5% gain.

A major impetus is the fact that "Although unemployment is not dropping (projected to remain at approximately 7.5%) and wages and salaries are not increasing as rapidly as they had, inflation is lower so real disposable income is up," she points out.

Confirming this trend, Sandra Shaber, an economist with Chase Econometrics is forecasting an increase of 3.4% in real disposable income for this year, on top of the estimated rise that took place last year. She places the inflation rate at only 3.4%, approximately the same level as in 1984.

As a result of such positive factors, Wells sees sales of general merchandise, apparel and furniture (GAF) increasing by 7.5%. Based on her forecast of 3% GAF price inflation, this would translate to real gains of approximately 4.5%.

The gains are strong enough in themselves. They are even more significant, though, since they follow the 1984 increases which indicate the strongest sales performance in these categories since 1971, points out Wells. Last year GAF industry sales are estimated to have risen 9.5% in real terms, taking into account general merchandise inflation which is placed by Wells at approximately 2%.

Yet, the improvement in sales per-

Maurice Segall, president and ceo, Zayre

Herbert Fisher, chairman, Jamesway

Philip Hawley, chairman and ceo, CHH

"Retailers had better be lean and mean going into the first quarter and through the first half"

"I don't expect a banner year, but I don't think we'll do any worse in 1985 than we did in 1984"

"While we expect a slowdown in the sales growth rate, we expect very strong profit growth"

formance may not be experienced by all retail categories, according to Wells. "In 1985, noninterest rate sensitive goods, such as apparel and soft home furnishings, should do better than the housing related, big ticket durables," she says.

James Newton, director of economic research for Management Horizons, agrees that "One type of retail institution that we view as likely to experience a considerable slowdown is those operations selling durable goods." These include furniture stores, consumer electronics stores, appliance stores and even automobile showrooms. In 1983 and 1984 these areas experienced extremely high growth. Now they are slowing up as demand has been sated." Management Horizons' forecast calls for durable goods sales growth to slow to 3% this year, from 1984's 12.8%.

However, he adds, "One area we see continuing to do relatively well is apparel. But even there we're looking for a slowdown." According to his estimates, while purchases of these goods rose at a more modest rate of only 4.9% in 1984, they are seen as increasing an additional 2.9% in the current year.

The net result is that "We see continuing improvement in retail sales, but not at the same rates as for most of this year," he says. "While retail sales growth was in excess of 7% in 1984, we see it being approximately 3% this year."

Howard Hassler, senior vp and cfo of Allied Stores, says, "We expect that this will be a fair year. But we don't anticipate as much of an upturn as we experienced in 1983 and earlier in 1984 when sales were very strong. We expect reasonable increases but we are unsure what impact all the proposed tax changes may have."

The new Federal tax proposals also pose a big question mark to the Caldor discount store chain. "We're planning for the spring to be as good as last year, or maybe even better," says Harold Karun, executive vp-finance and administration. But, because of the uncertainty over taxation legislation, he refuses to speculate on what will happen during the second half of the year.

Other retailers, though, appear relatively confident that by the third and fourth quarters, traditionally the most important retail selling seasons, sales will clearly be on the upswing. For example, "I think the second half, particularly the fourth quarter, will see us in a more healthy growth situation," says Segall.

As for what the final outcome will be, Philip Hawley, chairman and ceo of Carter Hawley Hale, believes that for the year in total "Industrywide we

NRMA show planned for Jan. 13-16

"Retailing '85: Focus on the Future" is the theme of the 74th annual convention and National Retailers Business & Equipment Exposition, sponsored by National Retail Merchants Association, Jan. 13 through Jan. 16, in the New York Hilton and Sheraton Centre hotels.

From the opening session of the convention on Monday, Jan. 14, which will feature talks on economic and retail projections for 1985, the convention will look at retailing through 1990, evolving concepts in retailing, the inside information on MBAs in retailing, protectionism vs. open-door trading, national brands vs. private labels, and a multitude of meetings on merchandising and store planning, as well as such specialized subjects as security.

Starting at noon on Sunday, Jan. 13, and running through 3 p.m. on Wednesday, Jan. 16, the Business & Equipment Exposition will feature exhibits by manufacturers and resources involved in electronic cash registers and point-of-sale systems, data processing, management information systems, communications and telecommunications, merchandise marking and coding, business machines and equipment, security and loss prevention, financing and banking transactions, store planning, design and construction, visual merchandising, displays, fixtures, lighting and signmaking, merchandise handling, marketing, sales promotion and packaging.

Selected economic statistics*
(year-to-year changes)

	1980	1981	1982	1983	1984E	1985E
Gross National Product	– 0.3%	+ 2.5%	–2.1%	3.7%	6.8%	+3.3%
Consumer spending:						
Durables	– 6.6	+ 2.5	–0.3	+12.1	+13.0	+ 3.1
Nondurables	+ 0.7	+ 1.5	+0.6	+ 3.7	+ 5.8	+ 3.7
Services	+ 2.7	+ 3.3	+2.9	+ 2.7	+ 3.3	+ 2.8
Housing starts (thousands, annual rate)	1,300	1,096	1,059	1,704	1,817	1,550
Prices						
Consumer Price Index	13.5%	10.3%	6.2%	3.2%	4.1%	4.8%
General merchandise	6.3	4.7	2.8	2.7	3.5	4.2
Unemployment rate (% of labor force)	7.2	7.6	9.7	9.6	7.5	7.2

*In real dollars
Source: Morgan Stanley

will see more moderate sales increases." For CHH specifically, he says that "While we expect a slowdown in the sales growth rate, from excellent to very good, we expect very strong profit growth." This growth "is a payback from our restructuring program and from the merchandising strategy we instituted early in 1983 and which was already evident in the third and fourth quarters of this past fiscal year."

The biggest question mark, though, remains interest rates. "I think we are going to see upward pressure on interest rates, all caused by the twin deficits—the Federal deficit and the trade deficit," says Shaber. "If interest rates increase, and I believe we are right in forecasting that they will, I think this may undermine consumers' confidence in the economy."

She adds, "For several decades interest rates played little role in consumer spending, but in the last couple of years they have become very important. There definitely has been a relationship in terms of nominal interest rates and consumer spending. People are sensitive to interest rates as never before."

Yet, most retailers are echoing the sentiments of Joseph Johnson, chairman and ceo, Associated Dry Goods, who says, "Even though the economy generally seems to be slipping somewhat in the last few months, according to everything I read in the papers, I would still forecast 1985 to be a good sales year for retailers."

Specifically, he says, "I would still expect we're going to have an increase in department stores, for competitors as well as ourselves, somewhere around 7.5% to 8%, and doing better in discount stores."

If retailers can achieve such gains in the third year of an economic recovery and with most other economic indicators slowing sharply, chances are they will still be content. ■

Consumers still opening wallets, keeping sales strong

Retailers have varying opinions on how their businesses will fare during 1985, dependent somewhat on whether they are selling impulse goods or basic "necessities."

In general, specialty store retailers have diminished expectations for the United States economy in 1985. They see the unresolved issues of Federal deficit and tax reform proposals dampening consumer enthusiasm at least through the year's halfway point.

"We think 1985 will be a tough year economically in general," offers Harry E. Rich, senior vp of St. Louis-based Brown Group. Rich says consumers will probably be tight-fisted for the first six to eight months, suppressing retail sales. The company also expects to be hurt somewhat by a national oversupply of shoes.

Richard P. Hamilton, chairman and ceo of Hartmarx, is considerably more hopeful. "If things should slow down, we think we'll perform above the average," he says.

"When we had the last recession [1981-82], we sailed right through it beautifully," Hamilton says. The company's core customer—the 35-55 year old business/professional man—is not usually affected by slight economic downturns, he observes.

However, there will be "a little trepidation" among consumers for the first six months of 1985, warns Bert Briskin, executive vp of Brooks Fashion Stores.

The 35- 55-year-old business/professional man is not usually affected by slight economic downturns

Briskin cited the pending Federal tax reform proposal, among other worries, as a source of consumer uncertainty. "They'll play their spending a little closer to the vest until things settle down."

Briskin still feels Brooks will post sales increases in the first half, and better increases in the second half, but qualifies his projection: "It won't be as strong as it was in the past two years. There'll be a slowing down."

In contrast, as Martin Grass, senior vp-planning and development of Rite Aid, says, "In the drug store business we are little bit lucky because we are selling necessity. Our own business hasn't skipped a beat through the recession."

He adds, "This year our company is looking for another record year of sales and profits."

As for the economy at large, "I think there is not going to be much difference in the economy this year from where it was last year. Basically I believe we are going to stay about where we are now at least for another year."

Peter Rhodes, cfo, Fay's Drug Stores, who agrees with Glass, adds that while last year the economic growth was very rapid during the first half, "We don't expect it to be as good this year. However, while the second half was much slower, we don't expect it to be as bad this year. It should even out and turn out to be a little more of a normal year than the ups and downs of the past few years."

As for the outlook at Fay's Drug, Rhodes observes that "We are looking for a good year."

The supermarket industry, also selling necessities, in general shares his belief, basing its optimism on improved gross margins and on hoped-for labor concessions. ■

Chains still slashing prices to lower high inventories

Retailers are in a rut. Since Labor Day, they've been saying consumer confidence is high but the chains continue to slash prices to sell their slow-moving inventories.

Adversely affected by unseasonably warm weather in October, a softening of consumer demand and a desire to increase share of market, most chains offered price reductions on fall and winter merchandise as far back as Columbus Day.

This resulted in increased sales but a squeeze on gross margins and net earnings during the quarter which ended in either September or October.

(For most general merchandise retailers, the third fiscal quarter ends about Oct. 31. One major exception is R. H. Macy, which ended its fiscal first quarter on Oct. 27.)

As a result, there was a continuing escalation of price-cutting from the middle of the quarter through Christmas.

Survey of third quarter results shows an average sales gain of about 7.5% over the year-earlier quarter

An indication of the softening of consumer demand was the statement by Edward R. Telling, chairman and ceo, Sears, Roebuck, to the effect that revenues of Sears Merchandising Group reflected smaller gains in durable goods (in the third quarter) after two years of double digit increases in those lines.

Practically everyone said that they'd been slashing prices in an attempt to get rid of high inventories.

A survey of the financial results of 13 large general merchandise chains in the quarter ended in September or October taken by *Chain Store Age Executive* shows an average sales gain of about 7.5% over the year-earlier quarter. This excludes a 36% gain by Wal-Mart, which was an extreme.

Profits for the same chains, however, ranged all over the lot with K mart registering a 12.7% increase; J. C. Penney, 6.6%; May Department Stores, 12.2%, and Associated Dry Goods, 11.1%. But in the case of Penney, there is a footnote to the fact that LIFO (last-in, first-out method of inventory accounting) credits of $13 million were reflected in the quarter, compared with none in the comparable 1983 period.

Wal-Mart registered an impressive 38% increase in profits, Woolworth reported a 30% profit increase and Zayre had a 28.7% earnings increase. But Federated Department Stores had a 23.6% decrease, Dayton Hudson showed a 3% decrease, Macy reported a 26.9% decrease and Allied Stores, an 8.7% decrease.

May president David C. Farrell says all segments of his company's business improved in the third quarter in sales and earnings, compared with one of the strongest quarterly performances in the company's history.

Most chains offered price reductions on winter merchandise as far back as Columbus Day.

Sales and earnings for quarter ended in September or October

Chain	1984 sales (millions)	1983 sales (millions)	% change	1984 EPS	1983 EPS	% change
General Merchandise						
Sears[1]	$6,463	$6,190	4.4	—	—	—
K mart	4,993	4,331	15.3	$0.71	$0.63	12.7
Penney	3,211	2,914	10.2	1.34	1.26	6.6
Federated	2,266	2,071	9.4	0.87	1.14	(23.6)
Dayton Hudson	1,868	1,659	13.0	0.44	0.46	(3.0)
Woolworth	1,404	1,353	3.8	0.82	0.65	30.0
Wal-Mart	1,584	1,167	36.0	0.42	0.31	38.0
May	1,133	1,003	13.0	0.92	0.82	12.2
Macy	1,011	929	8.8	0.61	0.85	(26.9)
ADG	951	905	5.0	0.80	0.72	25.0
Allied	932	883	5.5	0.84	0.92	(8.7)
CHH[2]	906	758	20.0	0.05	0.15	(66.6)
Zayre	777	659	17.8	1.12	0.92	28.7
Supermarkets and convenience stores						
Safeway	4,584	4,300	6.6	0.65	0.82	(20.7)
Kroger	4,623	4,505	2.6	0.86	0.62	38.7
Southland	3,085	2,430	26.9	1.19	1.46	(18.5)
Lucky	2,191	2,027	8.1	0.30	0.35	(14.3)
Winn-Dixie	1,732	1,648	5.1	0.48	0.46	4.3
A&P[3]	1,377	1,192	15.5	0.31	0.20	55.0
Drug chains						
Walgreen	684	595	15.0	0.85	0.73	16.4
Jack Eckerd	637	543	17.3	0.35	0.30	16.7
Revco	511	453	12.6	0.42	0.44	(4.5)
Longs	328	291	12.7	0.79	0.72	9.7
Specialty stores						
Melville	1,066	985	8.2	0.68	0.71	(4.2)
Tandy	596	583	2.1	0.41	0.57	(28.0)
U.S. Shoe	416	375	10.9	0.46	0.85	(49.9)
Limited	349	271	29.0	0.47	0.35	34.0
Toys "R" Us	322	221	45.7	0.18	0.11	63.6
Edison[4]	269	249	7.8	0.88	0.96	(14.4)
Zale	217	198	9.6	0.04	—	—

( )decrease

[1] Sears Merchandise Group sales only. Operating profits from this group amounted to $163.8 million, or a 3.1% increase over the $158.9 million of a year earlier.

[2] Actual earnings increased 59%. Earnings per share declined because of actions taken by CHH to fight off a takeover attempt by Limited Inc.

[3] Before extraordinary credits in both years.

[4] Without a nonrecurring after-tax gain from the sale of Handyman Store properties in Texas and Oklahoma, earnings per share would have been 73¢ in the 1984 quarter, a 28.8% decrease.

Source: *Chain Store Age Executive*

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"With the consumer in a positive frame of mind, and with two extra sales days between Thanksgiving and Christmas, we are optimistic about the outlook for the fourth [current] quarter."

Howard Goldfeder, Federated's chairman and ceo, says: "The third quarter was disappointing overall, although we see some positive indicators which should position Federated more favorably in the future."

He adds that the department and specialty stores and mass merchandising segments of Federated didn't perform as well as anticipated because of the warm weather, efforts to clear seasonal merchandise, strategies to enhance share of market and the "continuation of a highly promotional retail environment."

Bernard M. Fauber, K mart chairman, says the third quarter sales increases for his company reflected the impact of significant merchandising improvements completed in the quarter, in addition to the acquisitions of Waldenbooks and Home Centers of America.

He adds that additional borrowing was required as a result of the acquisitions and that this resulted in a 5¢-a-share reduction in earnings per share in the quarter.

Among major food chains, sales increases ranged from 2.6% for Kroger to a high of 26.9% for Southland, and included a 15.5% gain for The Great Atlantic & Pacific Tea Co. (A&P), 8.1% for Lucky, 6.6% for Safeway and 5.1% for Winn-Dixie.

A rebounding A&P showed a whopping 55% earnings increase over the same year-earlier period, with Kroger reporting an impressive 38.7% increase. Safeway reported a 32.8% profit increase, Giant Food had a 10.3% increase and Winn-Dixie reported its earnings were up 4.3%. Southland, despite its huge sales increase, had an 18.2% decline in earnings with 16.1% more average shares outstanding, primarily due to its Citgo acquisition in August 1983. Lucky had a 14.3% decrease in profits; Giant, a 5% decline.

Kroger says net in the quarter included a $3.7 million, or 8¢ a share, from the retirement of some debentures. Kroger attributes the results to better retail performance and a cost-cutting campaign, which included a cutback of corporate staff by 12%. It also is closing stores in which employees won't grant wage and benefit concessions (*Chain Store Age Executive*, November 1984).

The drug chains showed a fairly consistent sales growth pattern of from 12% to 17%, but while Walgreens and Jack Eckerd showed profit increases in excess of 16% and Longs had a 9.7% increase, Revco reported a 4.5% decline.

In the specialty store field, Toys "R" Us led the way with a huge 45.7% sales increase and even more impressive 63.6% earnings jump. The Limited registered a 29% sales increase and 34% earnings improvement. Tandy (Radio Shack), U. S. Shoe and Edison Bros. all reported profit declines.

Toys "R" Us opened 34 stores, including four in Canada and one in Singapore, in 1984. It plans to add 40 to 50 stores this year, including its first unit in the United Kingdom. Toys "R" Us also opened eight Kids "R" Us children's clothing stores last year, bringing the total to 10. It plans to open 15 to 20 Kids "R" Us stores this year. ■

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New centers pace industry upswing

Although the recovery began in 1984, this will be the year when the shopping center industry really takes off

The industry pundits have been predicting it and now the numbers are confirming that it is true. 1985 is shaping up as an extremely active year for the shopping center industry and the pace of development shows no signs of slackening.

Although 1984 signaled the beginning of the recovery, because of the long lead times characteristic of the industry it has taken until the current year for building to really take off.

Now a whopping 90% of developers queried plan to substantially increase total GLA before year-end, according to a survey conducted by *Chain Store Age Executive*. In addition, 80% of this group expects to achieve additional increases in 1986.

Such increases are particularly significant since they come on top of those additions to total GLA made last year by 70% of those surveyed.

This year a greater percentage of additions to GLA is expected to come from new construction, approximately 67%, compared to last year's 59%. Conversely, expansion of existing centers appears to have slowed somewhat, accounting for 20.7% of growth this year, down from 28.9%. Acquisition activity remains virtually unchanged at 12%.

The slowdown in center expansion seems logical since already these developers report having expanded 13.3% of their existing centers in 1984 and with the expansion of another 9.8% already on the drawing board for this year.

Looking ahead to 1986, those adding GLA expect 67% of the addition will be through new construction, while expansions will continue to decline as a percentage of total GLA additions, down to 18.6%. The rate of acquisitions is seen as quickening slightly to account for 14.9% of the GLA increase.

Of this year's survey respondents, 84% have some development responsibilities for neighborhood/convenience/community centers, also confirming another dominant trend in the industry. Forty-four per cent of the respondents cite such centers as

Development activity

	1984	1985	1986
Experienced/expect increase in total GLA:			
	70%	90%	80%
Among those experiencing increase:			
Level of increase in total GLA attained/expected (in sq. ft.)	680,000	616,000	792,000
Percentage of increase in total GLA resulting/expected to result from:			
New construction	59.1%	67.2%	67.0%
Expansion of existing centers	28.9%	20.7%	18.6%
Acquisition of centers	12.0%	12.1%	14.5%

Source: *Chain Store Age Executive* research

Types of shopping centers owned/managed

	Total	Primary area of involvement
Neighborhood/convenience/community centers	84%	44%
Regional malls	56	38
Mixed-use/multi-use centers in suburban locations	38	2
Mixed-use/multi-use centers in downtown locations	30	4
Off-price/outlet centers	30	6
Specialty centers	26	2

Source: *Chain Store Age Executive research*

Urban festival centers such as South Street Seaport illustrate the diversity of development.

Level of year-to-year increases in GLA

	1984 Primary area of involvement		1985 Primary area of involvement	
	Regional malls	Neighborhood/ convenience/ community centers	Regional malls	Neighborhood/ convenience/ community centers
100,000 sq. ft. or less	8%	19%	0%	10%
100,000-200,000 sq. ft.	17	31	6	16
200,001-400,000 sq. ft.	25	19	6	10
400,001-700,000 sq. ft.	8	6	29	16
700,001-1,000,000 sq. ft.	17	—	18	42
1,000,001-2,000,000 sq. ft.	17	19	29	16
2,000,001-4,000,000 sq. ft.	—	6	—	10
More than 4,000,000 sq. ft.	—	6	N.A.	N.A.
(Mean)*	(792)	(741)	(691)	(803)

*In thousands
N.A.—Not Available
Source: *Chain Store Age Executive research*

their primary type of retail real estate involvement.

Not surprisingly, the second most dominant area of involvement is regional malls with a majority of the survey respondents, or 56%, indicating that they own or manage such centers. It is the primary area of industry involvement for 38%.

When the survey respondents were questioned about their participation in other types of center development, the following results were obtained: mixed-use/multiuse centers in suburban locations, owned or managed by 38% of the group; mixed-use/multiuse centers in downtown locations, 30%; off-price/outlet centers, 30%, and specialty centers, 26%.

As for primary area of involvement, 6% cite off-price/outlet centers; 4% mixed-used/multiuse centers in downtown locations; 2% mixed-use/multiuse centers in suburban locations, and 2% specialty centers.

The current spurt of activity taking place in all these forms of retail development is a function not only of the general economic recovery, but also of the fortuitous convergence of a number of conditions unique to the shopping center business.

First, interest rates appear to be still on a downward trend *(see related story this issue)* and the availability of financing continues to improve (including a big influx of money into the industry from pension funds and other heretofore relatively untapped sources).

Second, in looking for ways to continue to grow their businesses, a number of the nation's department store companies have taken a now-or-never approach to entering new market areas and/or making stronger statements in existing ones. The result is that they are ready to commit to new mall projects.

At the same time, the boom in the specialty store business is providing developers with plenty of tenants to draw from both for mall space as well as in other locations. Existing chains are expanding, new ones are constantly emerging and even foreign operations are increasingly making their presence felt on the American scene. Witness, for example, the phenomenal growth of the Benetton chain, Laura Ashley's continuing quest for American sites, and now the entry of Canadian giant Dylex (*Chain Store Age Executive*, October 1984) as some examples.

Then, too, there is the emergence of new retail formats, including supermarket superstores and warehouse stores, deep discount drug operations, computer stores, discount book chains, megaoptical stores and, of course, off-price operators.

All this coupled with the continuing growth of such retail classifications as home centers and catalog showrooms (particularly Service Merchandise and Best Products) clearly shows where the tenants are coming from.

There's plenty of room for them, with this year's average increase in total GLA expected to be 616,000 sq. ft., according to the *Chain Store Age Executive* survey. This is down somewhat from the 680,000 sq. ft. reported for 1984. However, it's expected to jump all the way to 792,000 sq. ft. in 1986, reflecting the continuing swing back to new center construction.

Interestingly, a similar survey conducted by *Chain Store Age Executive* last year indicated that developers then expected to add only an average of 495,000 sq. ft. of GLA. One likely reason for the difference is that, finding themselves in an extremely favorable economic climate, developers quickly proceeded with such projects as strip centers, specialty centers and off-price centers, in particular, all requiring relatively short lead times.

At the same time, regional mall developers also took advantage of retailer interest and fast-growing markets to expand existing centers perhaps sooner than originally anticipated.

It now appears that for those involved primarily in neighborhood/convenience/community

Paying the price

Primary source of financing

		Primary area of involvement	
	Total	Regional malls	Neighborhood/ convenience/ community centers
Open-end construction loan	26%	16%	32%
Conventional long-term mortgage	14	26	—
Internal financing	14	16	9
Revolving lines of credit	8	5	14
Insurance	8	10	9
Monies acquired through arrangements with pension funds	6	16	—
Syndication	6	—	14
IRBs	4	—	9
Permanent take-out	2	—	4
UDAGs	2	—	4
Public monies	2	—	—

Source: *Chain Store Age Executive research*

When it comes to the question of financing in the shopping center industry, the methods in use are as diverse as the types of shopping centers being developed, according to a recent survey undertaken by *Chain Store Age Executive*.

No one method is used as the main financing source by a majority of the respondents, although open-end construction loans continue to be the most prevalent. They are currently the primary source of financing for 26% of the respondents.

According to the survey, conventional long-term mortgages are being obtained by a lucky 14% of the respondents while 14% are relying primarily on internal financing sources. Revolving lines of credit are in primary use by 8% as are monies acquired from insurance companies.

Other primary methods of financing now in use include: syndication, 6%; industrial revenue bonds, 4%; permanent take-out loans, 2%; Urban Development Action Grants (UDAGs), 2%, and public monies (*i.e.*, bonds), 2%.

The survey also shows that the use of financing sources varies considerably according to the type of center under development.

Specifically, for those survey participants engaged primarily in regional mall construction, conventional mortgages lead all sources as the primary method of financing, at 26%, while open-end construction loans are the leader for neighborhood/convenience/community center builders, at 32%.

Conversely, open-end construction loans are the primary financing source for 16% of the regional mall developers, while conventional long-term mortgages are not the primary source for any of the neighborhood center builders.

Another source of financing heavily relied on by the mall builders but not at all by those involved in neighborhood center development is pension funds, cited by 16% of the mall group. Conversely, syndication is a primary source for 14% of the neighborhood center group, but not tapped into at all as a primary source for those involved in mall development.

Other financing methods utilized as primary sources by the neighborhood center developers and not at all by the mall developers include: industrial revenue bonds, permanent take-out loans and UDAGs. None of these are utilized as the primary source for the mall group.

centers, the trend toward new construction will accelerate this year. This group predicts that 72.1% of their 1985 increases in GLA will come from new center construction, up from 61.4% last year. Conversely, expansion of existing centers will fall to 20% from 26.8% of the total.

Acquisitions will play a lesser role as a means of adding GLA, falling to 7.9% from 11.8%.

However, new construction is also on the upswing for those involved primarily with regional malls. They are expecting that 54.1% of this year's addition to GLA will come from new centers, up considerably from 1984's 48.3% (a number obviously affected by the bleakness of the early part of the 1980's which took the bloom off regional mall plans). Correspondingly, expansion of existing centers is expected to slow considerably, accounting for only 27.9% of the growth in GLA, down from 40%.

In contrast to the situation with neighborhood centers, though, acquisitions are expected to play a more major role in contributing to mall GLA increases. Those involved chiefly in mall development expect acquisitions this year to contribute 17.9%, up from 11.7%.

***The Arsenal Marketplace** is an example of converting existing space into retail developments.*

For those survey respondents planning to boost GLA before year-end, the anticipated average size of newly constructed centers averages 339,000 sq. ft.

As could be predicted, this is considerably higher for regional malls, at 557,000 sq. ft., than for neighborhood/convenience/community centers at 219,000 sq. ft. This also indicates that both malls and neighborhood centers are being downsized somewhat this year since in 1984 the average sizes were 521,000 sq. ft. and 104,000 sq. ft., respectively. The average for the total survey group was 228,000 sq. ft.

Yet, although the centers may be smaller, they may also be greater in numbers. While the survey shows the average number of new centers

Average size (in GLA) of new 1984 centers

	Total	Primary area of involvement	
		Regional malls	Neighborhood/ convenience/ community centers
Less than 100,000 sq. ft.	39%	14%	57%
100,000-250,000 sq. ft.	36	14	43
250,001-400,000 sq. ft.	11	14	—
400,001-700,000 sq. ft.	4	14	—
700,001-1,000,000 sq. ft.	11	43	—
(Mean)*	(226)	(521)	(104)

*In square feet

Source: *Chain Store Age Executive* research

Average size (in GLA) of 1985 centers

	Total	Primary area of involvement	
		Regional malls	Neighborhood/ convenience/ community centers
Less than 100,000 sq. ft.	16%	—	28%
100,000-250,000 sq. ft.	40	18%	50
250,001-400,000 sq. ft.	21	27	17
400,001-700,000 sq. ft.	5	9	—
700,001-1,000,000 sq. ft.	16	46	—
(Mean)*	(339.0)	(557.0)	(219.0)

*In square feet

Source: *Chain Store Age Executive* research

opened per developer in 1984 was 2.8, this year it stands at 3.5.

Most of the increase comes from neighborhood center developers, upping their projects to an average 4.2 from 3.4, but the regional mall group has also boosted its plans to an average of 2.3 centers, up from 1984's 2.

While new center size may be on the decline, the size of expansion projects is on the upswing, according to the survey results. Of the respondents expanding existing centers this year, the average size of the project is 122,500 sq. ft., up from last year's average of 93,800 sq. ft. Expansions are obviously fewer in number, but bigger in size.

Somewhat surprisingly, the survey group reports that the cost per square foot for expanding centers, although having declined from last year's level, continues to be higher than that of constructing new centers, although this too has risen. The respondents estimate that it now costs $45 per square foot to expand existing properties, compared with $42.80 per square foot for new construction.

A further break-out shows a cost of $48.30 per square foot for regional mall expansion and $35 for neighborhood/convenience/community centers, compared with the costs of new construction of $46.90 and $39.80, respectively.

The same relationship existed last year when the costs per square foot for expansion projects were $43.30 per square foot, or $47.50 for regional malls and $41.70 for neighborhood/convenience/community centers, respectively.

These costs are all significantly more than the $38.30 reported for new construction, or $45.80 for regional mall construction and $36.70 for neighborhood center construction.

Geographically, the Southeast continues this year as the major area of development for the largest proportion of respondents. Approximately one-third of the developers planning additions to GLA, or 32%, are concentrating their construction activity in this region, down slightly from 39% in 1984.

Likewise, activity remains brisk in the Southwest, the area of concentration for 21% of those surveyed, the same level as last year.

However, this year will see an upsurge of activity in the Pacific and Midwest regions, cited by 18% and 13%, respectively, compared with 7% for each in 1984. The big loser is the Northeast, falling to 8% from 14%.

As for 1986, while the Southeast continues to be the most active area of development, otherwise it appears that building will be more evenly distributed throughout the various geographic regions. Specifically, 16% of the respondents identify the Midwest as their primary area of new construction, 16% the Southwest, 16% the Pacific region and 10% the mid-Atlantic region.

The shopping center industry is clearly on an upswing all over. ■

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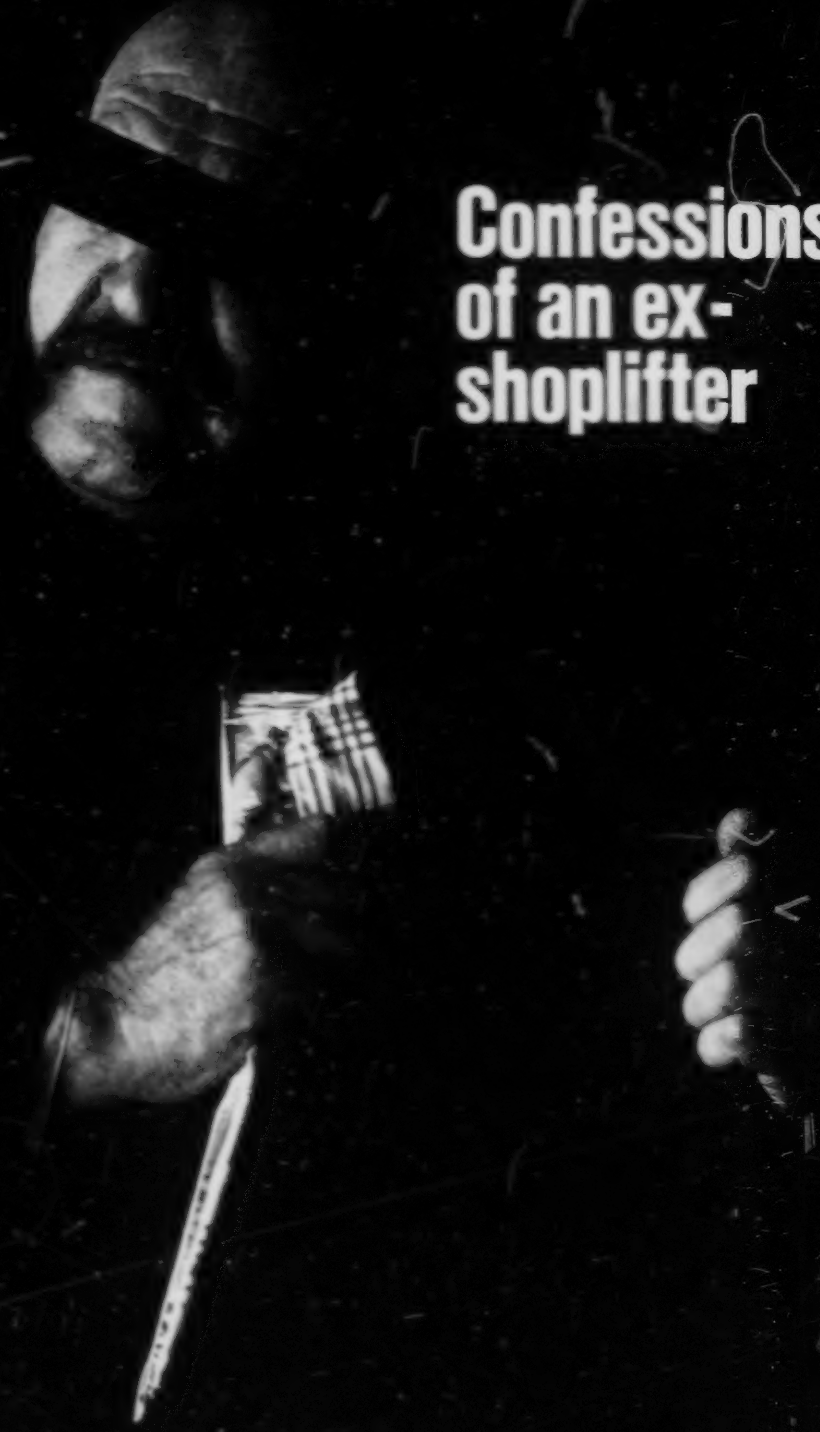

Confessions of an ex-shoplifter

TWENTY DOLLARS A YEAR (USA)

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Nearly one-fifth of expenditures went for electronic equipment, such as concealed cameras.

Taking the high-tech approach to pilferage

High technology is well on its way to becoming retailers' No. 1 weapon in the fight against shoplifting and internal pilferage, according to a recent survey by the accounting firm of Arthur Young.

The results of the survey, conducted annually for the National Mass Retailing Institute (NMRI), show that during 1983 retailers upped their overall security expenditures by 18%. These retailers indicated that nearly one-fifth of those expenditures were allocated to electronic tags and electronic equipment such as split screen cameras, pin-hole cameras and point-of-sale computer technology.

"Consumers are probably seeing more electronic tags on garments, more video monitoring and more cables transmitting to alarm systems on expensive clothing, electronic products and sporting goods," observes Errol M. Cook, the Arthur Young partner in charge of the survey.

Survey participants included 88 mass merchandisers, 37 department stores and 51 specialty stores, representing stores operating in more than 33,600 locations and with total sales of more than $109 billion. (Results of a separate survey of food store operations are found in the accompanying story.) These retailers reported 1983 shrinkage losses totaling $2.08 billion.

During 1983, security expenditures as a percentage of sales for the survey group were 0.53%

Average shrinkage levels on a regional basis*

Region	Shrinkage 1983	Shrinkage 1982
Northeast	1.9%	2.1%
Southeast	2.0	2.1
Midwest	1.9	2.0
North Central	1.7	1.9
Southwest	2.3	2.4
West Coast	2.3	2.0

*Data represents only survey responses. It is not indicative of overall nationwide shrinkage levels.

Source: Arthur Young

Devices used to control shrinkage

Mirrors	79%
Limited access areas	74
Lock-and-chain devices	68
Guards	68
Point-of-sale technology	59
Observation booths	49
Electronic tags	46
Visible TV monitors	42
Concealed TV monitors	39
Fitting room attendants	38

Source: Arthur Young

The trend toward greater use of electronic technology to combat such losses is likely to continue, with 60% of the survey respondents rating electronic tags as the most effective device for controlling shrinkage. The use of point-of-sale technology, with systems duplicating sales transactions on a cash register located in the security department, is also on the upswing, rated as most effective by 15% of the respondents.

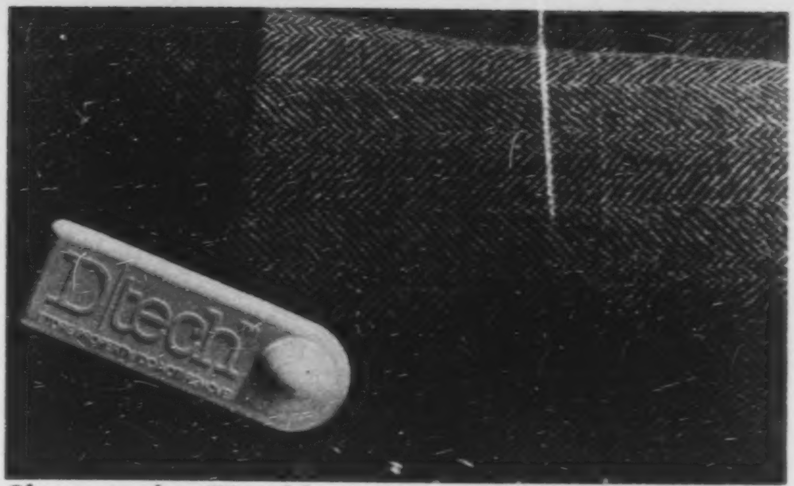
Other deterrents include guards, rated as most effective by 17%, visible television monitors, 13%, and mirrors, 2%.

However, despite their low effectiveness rating, mirrors are the method reported to be most in use, mentioned by 79% of the survey participants, but rated as least effective for controlling shrinkage by 66% of the respondents who use them.

Other prevalent methods in use include guards, used by 68% of the participants, and locks and chains, also used by 68%.

According to Stephanie Shern, a member of Arthur Young's survey team, the discrepancy between methods in use and those rated most effective is likely a result of the higher cost for technological devices. Yet, she believes such spending is definitely on the upswing.

During 1983 the security expenditures as a percentage of sales for the survey group were, on the average, 0.53%, representing an aggregate of $579.3 million. On the average, mass



Of survey respondents, 60% rated electronic tags as most effective for controlling shrinkage.

merchandisers spent 0.43% of sales for security and specialty stores spent 0.54% of sales. Expenditures were highest for the department stores at 0.76%.

The survey also shows a relationship between security expenditures and shrinkage levels. Those retailers with shrinkage levels of less than 1% of sales spent 0.4% of sales on security measures while for those with shrinkage levels of 3% or greater, the expenditure was 0.7%.

Again on the average, shrinkage as a percentage of sales was 1.9% for the survey population in 1983 and 2.1% in 1982, or a 10% decrease. Specifically, average shrinkage levels decreased for the department and specialty stores and stayed constant for the mass merchandisers. Department store shrinkage was reported to be 2.1% for 1983, down from 2.5% in 1982; specialty stores reported levels of 1.6% for 1983 and 2% for 1982; mass merchandisers put shrinkage levels at 2% for both years.

The retailers cited New York City, Chicago, Los Angeles, Houston and Detroit as the metropolitan areas with the highest shrinkage levels. Cities with the lowest shrinkage are reported to be Kansas City, Pittsburgh, Minneapolis and St. Louis.

Retailers attribute 44% of their shrinkage to employee theft, down from the 50% reported for each of the last two years. In addition, 30% was attributed to shoplifting, 22% to poor paperwork control and 4% to vendor theft.

More than two-thirds of all employees apprehended were cashiers and selling floor personnel. For the department stores, 59% of the apprehensions involved selling floor personnel, while mass merchandisers reported only 22% in that employee group.

Of the male customers apprehended for shoplifting, the majority were believed to be employed (63%); there was little difference in the percentage of employed vs. unemployed female customers apprehended (49% and 51% respectively).

The profile of the "typical" shoplifter as garnered from the survey participants, indicates that the shoplifter is over 18, is as likely to be a man as a woman and is as likely to be employed as unemployed.

The respondents attributed the majority of the apprehensions to the young adult (18 to 35) group for both males and females, in both the customer and employee categories. For customer apprehensions, the same percentage of males and females (55%) were grouped in the young adult category. For employees, there was an even greater percentage of the total apprehensions falling into the young adult category with virtually an even distribution between male (76%) and female (74%) shoplifters.

A new finding is that 56% of the respondents believe that the shoplifters plan to shoplift before entering the store, with 75% also believing that most shoplifted merchandise is for personal use. "Retailers tell us that the vast majority of those who take merchandise are not professional thieves," says Cook. "Many are shoppers who steal while purchasing other merchandise."

This last finding corresponds with the survey result that indicates health & beauty aids, jewelry and clothing departments are those with the highest shrinkage levels.

While security devices are definitely starting to cut down on such losses, retailers still see the salesmen themselves as playing a key role. Specifically, 90% of the survey participants believe increased employee education and awareness of loss prevention should further reduce shrinkage levels. To achieve this goal, more than 80% of the companies already use some type of in-store training to orient their employees. ■

Devices judged most effective

Electronic tags	60%
Guards	17
Point-of-sale technology	15
Observation booths	13
Visible TV monitors	13
Fitting room attendants	11
Limited access areas	10
Concealed TV monitors	8
Lock-and-chain devices	8
Mirrors	2

Source: Arthur Young

Food retailers wage battle against theft

Food retailers in 1983 spent 0.3% of sales for prevention of theft losses, down from 0.4% in 1982, according to Arthur Young's sixth annual study of inventory shrinkage control and security procedures in retailing.

This money is being used to combat shrinkage of 1.3% of sales in 1983, with 54% of losses coming from employee theft and 22% attributed to shoplifting. This translated to losses of $357 million for the 29 food retailers, representing total sales of $27 billion, that participated in the food retailing section of Arthur Young's survey.

Convictions as a percentage of all those apprehended for store theft reached only 41%, as compared with 61% for the total survey population (including department, specialty and mass merchandise stores). One possible reason for this discrepancy is the lower value of most stolen items as compared with those taken from other types of retail operations.

As is the case for the general survey population *(see accompanying story)*, mirrors are used most prevalently by the majority of the food retailers, or 89%. Electronic tags are the method of loss prevention judged most effective by 67% of the respondents.

CS150-4

Chain Store Age EXECUTIVE

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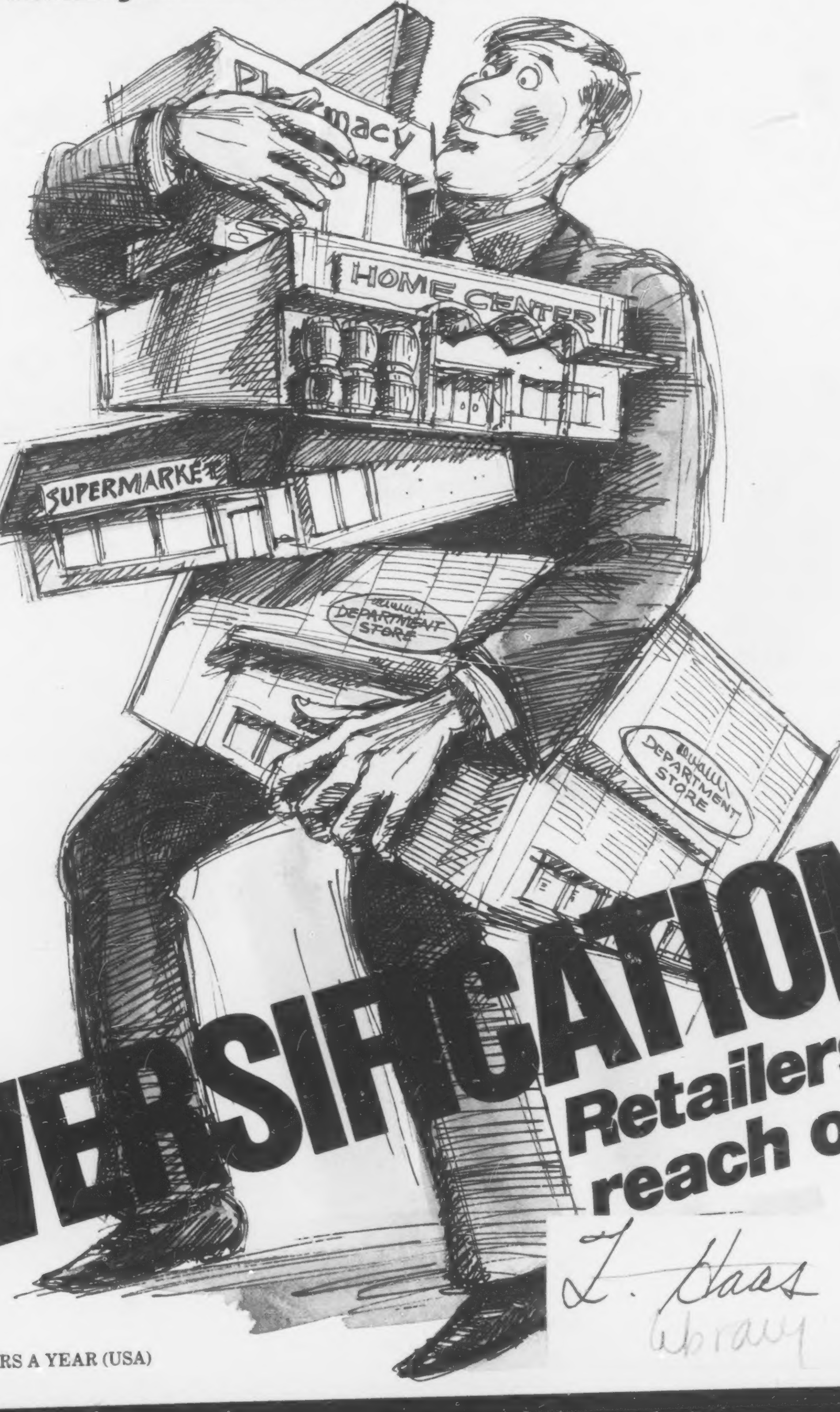
March 1985

SPECS '85 Schedule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Volume 61, No. 3/March 1985

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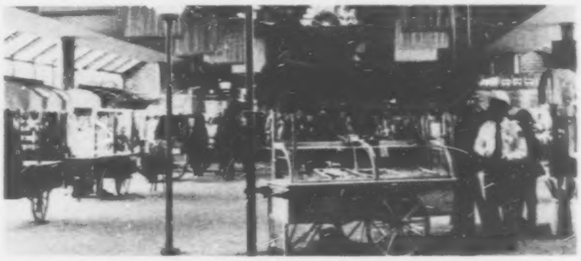

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Bloomingdale's national expansion is viewed as a sure success, with entries in Washington, Boston, Philadelphia, Dallas and Miami.

Retailing's Grande Dame: Cloaked in new strategies

Federated Department Stores is geared to increasing market share and poised to retake its position as an innovator

Long considered the granddaddy of the industry, Federated Department Stores this year played the part of the stepchild on Wall Street. "Avoid the stock at this time," one analyst advised his clients this past summer. Two consecutive quarters of earnings declines had already been reported; a third was on its way.

A short time later, a more optimistic stock-watcher urged investment, yet characterized Federated's performance of the past decade as "erratic" and "very disappointing." For the nine months ended Oct. 27, 1984, earnings dipped 22.8% to $127.8 million, or $2.58 a share fully diluted, on a 9.4% sales increase to $2.27 billion. For the fiscal year ended in January, sales rose 10% to $7.86 billion. Earnings for the fiscal year weren't available at presstime.

Despite these ups and downs in recent years, Federated Department Stores has retained its image among its peers as the *Grande Dame*.

"They are still stars. They have a strength that's inner; it's in their fiber. It's been in-bred for over 60 years." These comments, from a competitor, denote the respect Federated commands. It is the respect one gives to elders, as well as the respect reserved for something formidable—something potentially dangerous.

Perhaps that latter description more aptly suits Federated at this time. In recent years, its reputation for "firsts" diminished in many people's eyes as it appeared to ignore changing demographics and emerging forms of retailing—many of these coming head-to-head against the company's primary business, department stores. Now, however, Federated is armed with a new set of strategies geared to increasing market share and is poised to retake its position as an innovator.

In place now at Federated are strategic changes that have buoyed opinions of competitors and on Wall Street: a commitment to capturing greater market share through more aggressive promotions and stocking deeper inventories; renovation of key units in major markets; department store expansion into high-growth areas in the Sunbelt; the development and nurturing of new divisions; emerging management stability; the successful repositioning and expansion of Ralphs supermarkets, and the disposal or merger of unprofitable operations for greater efficiencies.

The long-term result (three to five years), says analysts, will be growth outpacing that of the retail industry itself. Short-term results are a bit more tenuous, but the consensus is optimistic: "I think earnings in the near-term will be a function of whenever they can extricate themselves from their overinventory position as well as see a little bit of improvement in retail sales against a depressed basis," states Jeffrey Edelman, first vp at Dean Witter Reynolds.

"Beyond that," he continues, "I would expect these changes to have an effect. But most turn situations take five years and I'm not sure this is going to happen much sooner."

Stacy Ruchlamer, an analyst with Shearson Lehman/American Express, is expecting a "big bounce back in 1985, against a base in 1984 that was pretty depressed." Ruchlamer anticipates Federated's sales growth this year to be around 8.5% against total industry growth of 7%.

The company began canceling orders in November, she says, and should have its inventory "more in line" by the end of April. That would put it 12% to 15% up over last year's.

(Norman Matthews, a Federated vice chairman, refused to comment.)

Federated's decision to embark on its ambitious strategic plan is reportedly an about-face from its previous stance. Analysts and competitors alike cite the company for a recent history of smugness and resting on its laurels.

At the same time, they say, Federated's dominance in major markets made it a likely target for direct competition from other retailers. "Over the last few years, everybody and his brother has pinpointed Federated as the major competition in their marketplace and targeted their events and their direction to take market share from the leader," notes one observer. An inevitable market share erosion followed.

Ruchlamer uses Rich's in Atlanta as an example: "They were an old-line store with no major threats. Then Davison's adopted value pricing and improved its visual presentation. And suddenly they were exciting stores. They had new fashions; the stores had theater."

The growing Atlanta population brought with it consumers who had no existing store loyalty, she states. And they went to Davison's. In 1977, Ruchlamer estimates Rich's held a market share of approximately 29%, while Davison's controlled 11%. By the end of 1982, she estimates Rich's had dropped to 25.9% and Davison's was up to 13%.

Under the leadership of Allen Questrom, Rich's spent 1983 re-establishing its presence, she says, and is now one of Federated's star performers, having double digit sales growth this past year. (Matthews refused to comment on Rich's 1984 performance, besides saying, "We are very pleased.")

Ruchlamer speculates that Rich's was, in a sense, a testing ground for Federated's new strategy. While Matthews said only, "You learn something from every division. And when a division is particularly successful, you learn even more."

Ironically, Federated seems to be learning as much, if not more, from R. H. Macy, as it is from its own divisions. Time and again observers make reference to Federated as "imitating" or "emulating" Macy's inventory strategy—or, in one case, Macy's "former" inventory strategy.

Says one such observer: "They [Federated] have embarked on a strategy to be much more aggressive and to regain lost market share. And in order to do this, they have simply tried to imitate R. H. Macy. Macy has been the most successful of the department store companies in terms of gaining market share and they went at it by putting more stress on inventories and promotions."

Thomas Tashjian, an analyst with Prudential-Bache Securities, notes, though, that Macy's is now running its year-to-year inventory gains more in line with anticipated sales gains. To intentionally stock heavy inventories "had been Macy's strategy during the time frame when we were looking at good, to even great, G.N.P. growth," he says.

To be sure, those two areas, promotions and inventories, are key to Federated's new strategy. However, Matthews emphasizes that "It is our own strategy, developed out of our own view of our position in the industry. It takes cognizance of what is happening in many areas of the industry and I certainly wouldn't characterize it as Macy's strategy."

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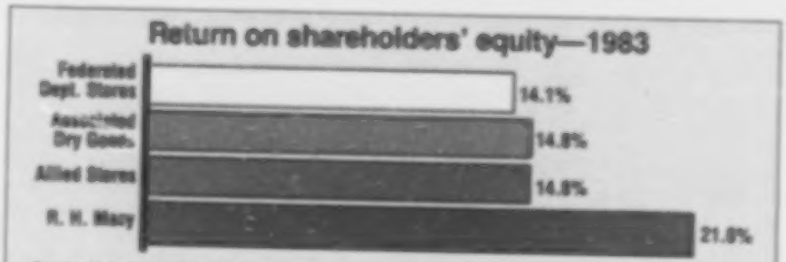
Filene's Basement has done well so far, according to Matthews, especially on Long Island.



Source: Chain Store Age Executive

Regardless of terminology, Federated's strategy is not only being pitted against Macy's in Atlanta, but in an increasing number of other markets as well, among them Houston (Foley's) and Florida (Burdine's). And, while no one knows for sure, the feeling is that the new strategy is working.

Witness Macy's New York entry into Florida at the Aventura Mall. The newcomer was greeted by a chainwide aggressive promotional push from market leader Burdine's.

With this campaign, observers say, Federated sought to accomplish two objectives: boost market share along with giving Macy's a run for its money. The feeling is that it's worked; the impact of Macy's on Burdine's, sources believe, has been minimal.

While it's acknowledged that Federated's new policies put it in the right direction, they are also cited as the cause for earnings declines in the first three quarters of 1984. The timing of the new inventory and promotional strategies couldn't have been worse, sources say.

Most retailers started out the year expecting another year of strong sales gains and planned inventories accordingly. An unanticipated slowdown in consumer spending followed, and in order to move goods retailers were forced into "promotional madness," says Ruchlamer. Federated's strategy for gaining market share became the strategy for survival for all retailers in 1984.

The company's efforts were canceled out and its problems exacerbated by a commitment to deepen inventories that were destined not to move. "The environment," admits Matthews, "certainly made the implementation of the strategy more difficult."

Tashjian, however, sees the environment changing this year. Like Macy's, he reports, most department

After being plagued by instability, Gold Circle is currently under sound management

stores will be matching inventory increases to anticipated sales increases. Federated, on the other hand, "seems dedicated to the strategy of a higher inventory per square foot.

"Going along with that strategy," he continues, "as the other companies tighten their inventories so they're running in tandem with their sales increases, Federated will be the one that's offering the better depth of selection . . . and will remain full on their inventories—which would cause possibly more interest expense to finance the inventories but may also beef up their market share."

Goldfeder has acknowledged last year's difficulties and cited some other negative effects of the new strategies as well:

- A switch from a profit sharing to a pension plan took its toll on the first three quarters' earnings. This, however, was expected to be offset in the fourth quarter.
- Start-up expenses for MainStreet ate their piece of the bottom line.
- The expansion and repositioning of Ralphs, the southern California supermarket chain, severely impacted the first two quarters.
- At the same time, said Goldfeder, it was necessary to communicate these new strategies with increased advertising.

Unfortunately, 1984 never brought with it the added sales to offset these expenses. But the feeling at Federated, as well as on Wall Street, is that 1985 will.

". . . earnings should be a rising trend through most of 1985 because of easier comparisons," reports Edelman. "With most disappointments likely to be past, we believe the stock offers value and is attractive."

The new inventory strategy coupled with renovated and new stores (another hefty investment expected to pay off this year) should provide Federated's department stores with the edge to win greater market share.

Other positive developments include Bloomingdale's national expansion, viewed as a sure success based on the recognition the chain had already acquired through its catalog operation. Washington D.C., Boston, Philadelphia, Dallas and Miami have already seen its entry, with other markets, including Chicago, yet to come.

Abraham and Straus, Federated's Brooklyn, N.Y.-based division, appears to be in a strong position, having ended fiscal 1984 with its third consecutive year of sales and earnings gains.

Federated's strategy for gaining market share became the strategy for survival for all retailers

The outlook for MainStreet, the new division aimed at the middle market, isn't as clear. However, Matthews reports, "We are very pleased with the introduction and are aggressively expanding MainStreet. At this point, we will be opening another half dozen stores again this year."

According to a report from Management Horizons, Columbus, Ohio, "MainStreet represents an innovation of importance beyond its opening three [Chicago] locations." For Federated, the report says, this new business represents not only "a major new venture step forward for Federated, and "a major new entry into one of the largest retail markets in North America," but also, among other things:

- The first "from the ground up" business designed exclusively and expressly for the apparel and soft home needs of the middle income market.
- The first large corporate entry to counterbalance the rapid growth of Dayton Hudson's Mervyn's.

The 70,000-sq.-ft. stores are reportedly expected to generate sales of $200 per square foot.

Filene's Basement, spun off from the Filene's division in early 1984, is another area where the jury is still out. Yet, according to Matthews, so far it has done very well, particularly on Long Island. Expansion possibilities are being examined, he reports. While not yet one of Federated's largest divisions, the corporation is actively expanding The Children's Place which, along with The Children's Outlet, was acquired in 1982. This division ended 1984 with 138 stores, 24 more than in 1983. Matthews expects the number will total 300 by the end of the decade. Sales for the division for 1983 totaled $103.3 million, according to Ruchlamer. "If you triple that by the end of the decade to correspond with the increase in stores," she points out, "that's $300 million"—as much as Filene's or more than I. Magnin.

This division, says Tashjian, "is most definitely a niche filler of the future and we see it's going to be a prime competitor in the children's market. It's one of the right concepts and that's why they acquired it."

However, in the discount area the success of the company's discount divisions has bounced back and forth between Gold Circle and Richway in recent years.

Nineteen eighty-three was Richway's year for profits, and says Ruchlamer, a turnaround year. The year prior, earnings were depressed by seven new store openings and a new distribution center. Five or more stores will open this year.

Gold Circle, according to Matthews, had been plagued by management instability. "I had been the store principal for a number of years and when I came to Federated, it took us some time to find a replacement," he reports. "Then that replacement [Leonard Williams] left after 18 months or so, largely because of location difficulties. That makes it more difficult to have continuity in terms of strategy and implementation."

Now, says Matthews, sound strategies and competent organization are in place at both divisions.

All this bodes well for Federated's future. People active in the retailing industry, as well as observers of it, have a great deal of confidence in the company's strategies. "If Federated made up their mind to do anything, they wouldn't have a fighting chance. They would win hands down," says one competitor. "They're that professional." It's a sentiment shared by many. ■

—Holly Klokis

CIRCLE NUMBER 100 ON READER SERVICE CARD ▶

tions manager, who has not been replaced. "If it's administered," Wamboldt says, "I think it's an excellent idea"—for companies big enough to recoup at least $1,000 a month on their voice costs.

The availability of sophisticated SMDR outfits at all price levels should make it more palatable to businesses.

Control Key of Salem, Mass., and Digital Interface Systems of Benton Harbor, Mich., among numerous vendors, market SMDR packages for less than $7,000. Control Key, for instance, offers two "call accounting units" suitable for use by retailers: at $6,500, the FM 5000, capable of handling 1,000 stations and 250 trunks, and the $4,500 FM 5000K, sufficient for 60 stations and 40 trunks.

A common SMDR unit consists of a dedicated microcomputer, a printer and a replaceable AT&T rate cartridge, and can be programmed in-house to track calls on WATS, tie lines and other usage. Once plugged into the PBX, the typical unit will generate reports on the most frequently dialed numbers (often a sports or "sex" line) and excessive long-distance calls, to detect the sources of abuse. Network optimization reports indicate the frequency, duration and cost of calls by area code and, separately, on the firm's private lines, if it has any. "It's the basic information you need to design a network optimally," says Control Key marketing manager Todd Meyer.

With SMDR, further long distance savings are possible by enabling on-the-road employees to tap the firm's network with an authorization code, as an alternative to credit card or collect calling. Going one step further, long distance privileges can be offered as an executive benefit.

And then there is reselling.

The concept is hardly new. Both Sears, which last year formed the Sears Communications subsidiary, and Penney have begun offering usage of their elaborate countrywide networks to other corporations.

For companies lacking great technical capability and expertise, there is a humbler approach. Rosen proposes that, with SMDR and authorization codes, many chains can subsidize their phone systems by reselling long distance capacity to employees. If a company charges rates above its own cost but lower than what employees ordinarily pay, he says, both parties benefit; the charges could even be deducted directly from the staffers' paychecks.

Although Rosen could name no retailers currently engaged in the practice, he insists it's easily done. "If some of these companies understood their systems' capabilities better, then telecommunications could become a profit center rather than an expense center," he says. "They just have to be made aware of it."

Ward's Heatherly puts a more radical strategy on the table: reselling long distance service to the general public for profit.

"The possibility exists for any business that has a large customer base to utilize spare capacity and resell it to their customers," he observes. "The big retailers are in a better position from a customer standpoint to do this than other businesses." Heatherly would "neither confirm nor deny" that Ward is weighing such an entry into the ranks of the common carriers.

ADG's Jones, who asserts that telecommunications "is not our business," sneers at the suggestion of reselling. Due to the field's instability, offering employees a perk could lead to ill will if that perk had to be withdrawn, he says. Moreover, "I would never recommend violating our customer base by offering these services."

In any case, it already appears that there is little room left for retailers to win at the long distance game. "If you don't do it in this decade, you'll have missed the boat," Heatherly says.

Thus, success entails acting quickly—at a time when, as everyone knows, acting too quickly can be a treacherous affair. ■

DATA PROCESSING

Spending up despite shrinking labor costs

MIS systems slated for development or improvement in next two years

System	Mass merchandisers	Department stores	Specialty stores	Combination/ grocery stores	All respondents
Inventory control	50%	54%	53%	33%	50%
Stock replenishment	53	73	44	13	50
Point-of-sale	50	39	53	47	48
Purchase order management	50	58	47	27	48
In-store	58	15	41	60	43
Distribution	29	27	56	20	35

Source: Arthur Young

If it seems like retailers are spending more money on technology these days, that's because they are.

Expenditures for MIS (management information services) in the retail community jumped substantially in 1984, according to a new study by Arthur Young, the accounting and consulting firm.

According to Al McCready, national director of retail consulting for Arthur Young, data processing costs for retailers who participated in the study amounted to $652 million last year, or 0.92% of their aggregate annual sales. That's an 18% increase over the amount they spent on data processing in 1982—and significantly more than their 16% increase in sales.

The study encompassed 111 respondents across virtually all categories of retailing—mass merchandisers, department stores, grocery or combination store chains and specialty store chains. Together, those surveyed accounted for more than $70 million in retail sales in 1984.

"The retail industry has radically changed from three years ago with respect to management information systems," attests McCready—who reports that the increase in spending for store-level systems and microcomputers has risen even faster than overall MIS budgets. Why? Because there has been a gradual shift toward lower MIS personnel costs, he says.

The study backs up that thesis, revealing a significant drop in the amount that retailers are budgeting for payroll: 0.39% of sales in 1983, as compared with 0.52% of sales in 1982.

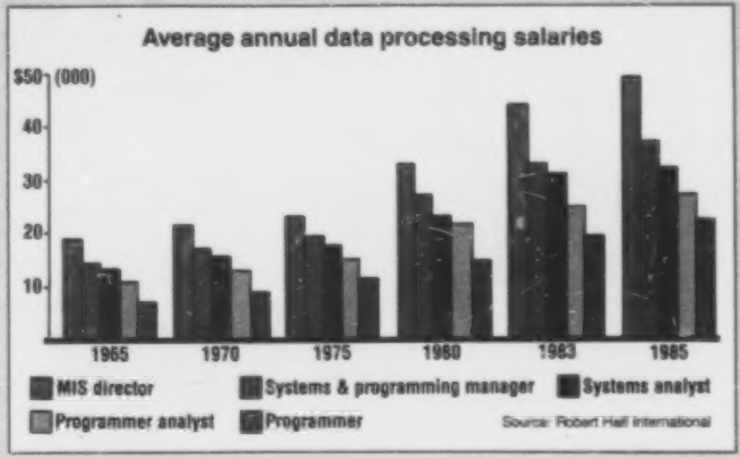
EDP personnel getting more expensive

While personnel budgets for data processing may be diminishing in retail companies *(see accompanying story)*, the cost of each data processing employee is on the upswing. That's the finding of a recent survey conducted by Robert Half International, the worldwide executive recruitment firm.

The study covers the major data processing categories, including: programmers, project managers, systems analysts, data base administrators, EDP auditors, management information systems directors, programmer analysts and computer operators.

According to Robert Half, principal in the organization, data processing starting salaries are up an average of 5.9% over a year ago. Half notes that there is a certain amount of regional variation in the survey findings, however. For example, starting salaries in California, Nevada and Connecticut are 5% higher than the national average, while they are 9% to 10% lower in Maine, New Mexico, Florida and West Virginia. The extreme variations were in the 49th and 50th states: in Alaska, starting salaries were 18% higher than the national average, while in Hawaii they were 15% lower.

Some highlights from the salary study:


Average annual data processing salaries

Source: Robert Half International

- Managers at large installations (over 50 data processing employees) can expect to find starting salaries in the $36,000 to $45,000 range—up 9.5% over 1984 levels;
- Programmers at medium-sized installations (15 to 49 employees) will find salaries in the $20,000 to $25,000 range—a 7.1% gain over the year before;
- Large installations are offering directors of management information systems starting salaries ranging from $54,000 to $75,500 (up 5.3% over the year before);
- Computer operators at medium-sized installations can anticipate starting salaries in the $16,000 to $20,000 range, or an average of 5.9% more than they could the previous year;
- Project managers at small installations (fewer than 15 employees) will find starting salaries in the $25,500 to $33,000 range—a 6.4% increase year-to-year.

According to Half, the size of the installation is a major factor in the degree of compensation for a given position. Also, individual data processing personnel are actually enjoying greater salary advancement than the figures suggest, since the figures do not reflect promotions to higher levels of responsibility.

"The survey suggests that as the technology used in capturing data has become more sophisticated and more widely used by retailers," says McCready, "fewer people have been hired for traditional data entry work. Computers now can handle functions such as looking up and recording the price of merchandise, and can prompt the employee who is performing more complicated functions—all of which greatly increases productivity in retail stores."

One retailer who concurred with the Arthur Young study's findings cited another reason for lower personnel costs: the recent spate of packaged software created especially for the retail end-user. With more and more packages available, needing only small modifications to fit a given retail operation, development costs have become less of a burden. That has freed up funds that could be invested in systems and in hardware.

Among all the various MIS applications, point-of-sale (POS) technology is still one of the most popular, says McCready. About 47% of the retailers surveyed were currently completing either the initial development of a POS installation or an enhancement of an existing POS system.

Store-level systems—computers operating in the stores themselves rather than in headquarters or a central location—had been developed by 47% of the mass merchandisers, and another 58% said that they were planning to install or improve such systems in the next two years. Overall, 43% of those surveyed said that they would implement or build up store-level systems by 1987.

At the same time, sales reporting/analysis systems had been developed by 46% of the department stores participating in the study.

"Each of the different types of stores, of course, has a different set of MIS needs," says McCready. "Mass merchandisers very much need computers to help track high transaction volumes, while department and specialty stores often need specialized reporting on fashion apparel."

The survey also reveals a move toward the development of inventory control and stock replenishment systems. Some 50% of those queried indicated that they had plans to implement such systems in the course of the next two years—led by the department store sector, where 73% said they would install stock replenishment systems and 54% said they would install inventory control systems.

Retailers are also giving a high priority to POS and purchase order management (POM) systems: 48% said that they were planning development or improvements in these areas. When it came to purchase order management, the department stores were

Microcomputer use in retailing

Applications	Mass merchandisers	Department stores	Specialty stores	Combination/ grocery stores	All respondents
Financial planning	47%	47%	56%	50%	50%
Sales reporting	26	0	19	33	20
In-store	15	5	4	25	[illegible]
Inventory control	[illegible]	0	15	25	10
Payroll	9	5	4	17	8
Point-of-sale	9	0	[illegible]	8	[illegible]

Source: Arthur Young

again the most aggressive (58% said that they would invest in such systems in the next two years), while specialty stores were most interested in POS (53% said that they'd invest in point-of-sale systems).

Additionally, 35% of all respondents said that they would implement distribution systems over the next couple of years. Those slated to be most active in this respect are the specialty store operators, with 56% replying in the affirmative; those slated to be least active are the food and combo store operators, with only 20% planning to implement new distribution systems.

The study also showed that retailers continue to be attracted to the relative low cost, versatility, interactive capabilities and ease of use associated with microcomputers." The respondents reported that they had an average of about 50 micros operating in each of their organizations.

Many of those surveyed (some 50%) said that they used micros primarily for financial planning. Specialty stores used micros this way most often (56%), while mass merchandisers and department stores made the least use of micros for financial planning (47%).

Microcomputers are also being used increasingly for sales reporting and analysis, especially by grocery and combination stores (33%) and mass merchandise chains (26%). Some 19% of the specialty store respondents said that they used micros this way, but none of the department store operations did—since they needed larger processors to produce their more complex reports. In general, 20% of all respondents said that they used micros for sales reports and analysis.

But those figures may go up in the near future, as about three fourths of those surveyed said that they are including micros in their overall MIS plans. "This reflects the growing appreciation of micros as a decision-support tool for such activities as sales projections; for financial budgets, and for production applications ranging from tracking bridal registries to producing 'rain checks,'" says McCready.

Significantly, a large number of those surveyed said that they're integrating MIS development into their formal business strategies. Some 80% say that they have an annual written plan for MIS activity. And 71% of the respondents reported that they have established data processing steering committees in their companies, both to coordinate MIS with corporate strategy and to disseminate MIS data to other areas. ■

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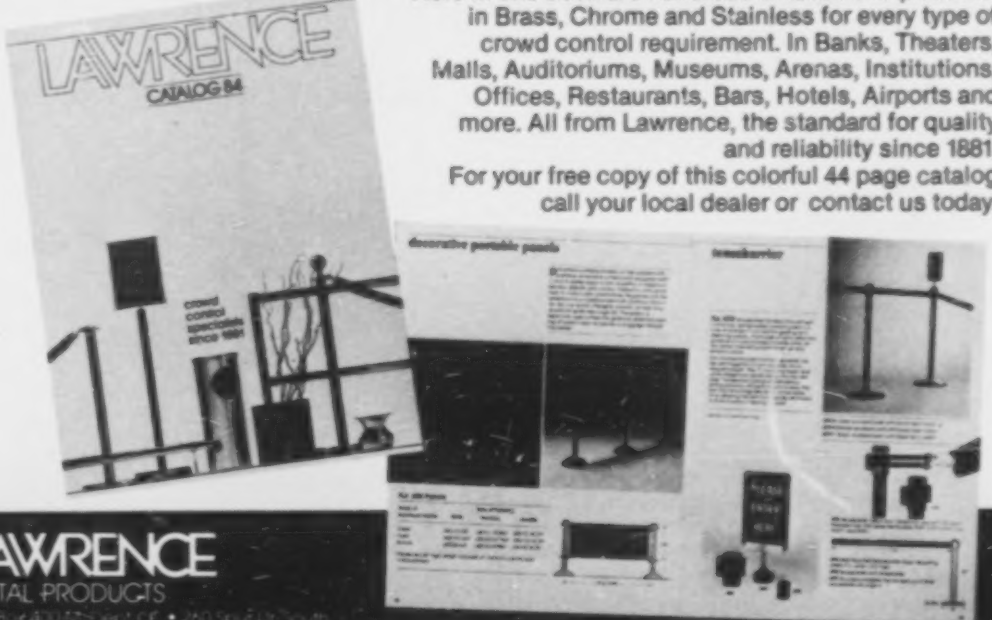
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Chain Store Age Executive

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The newsmagazine for retail operations

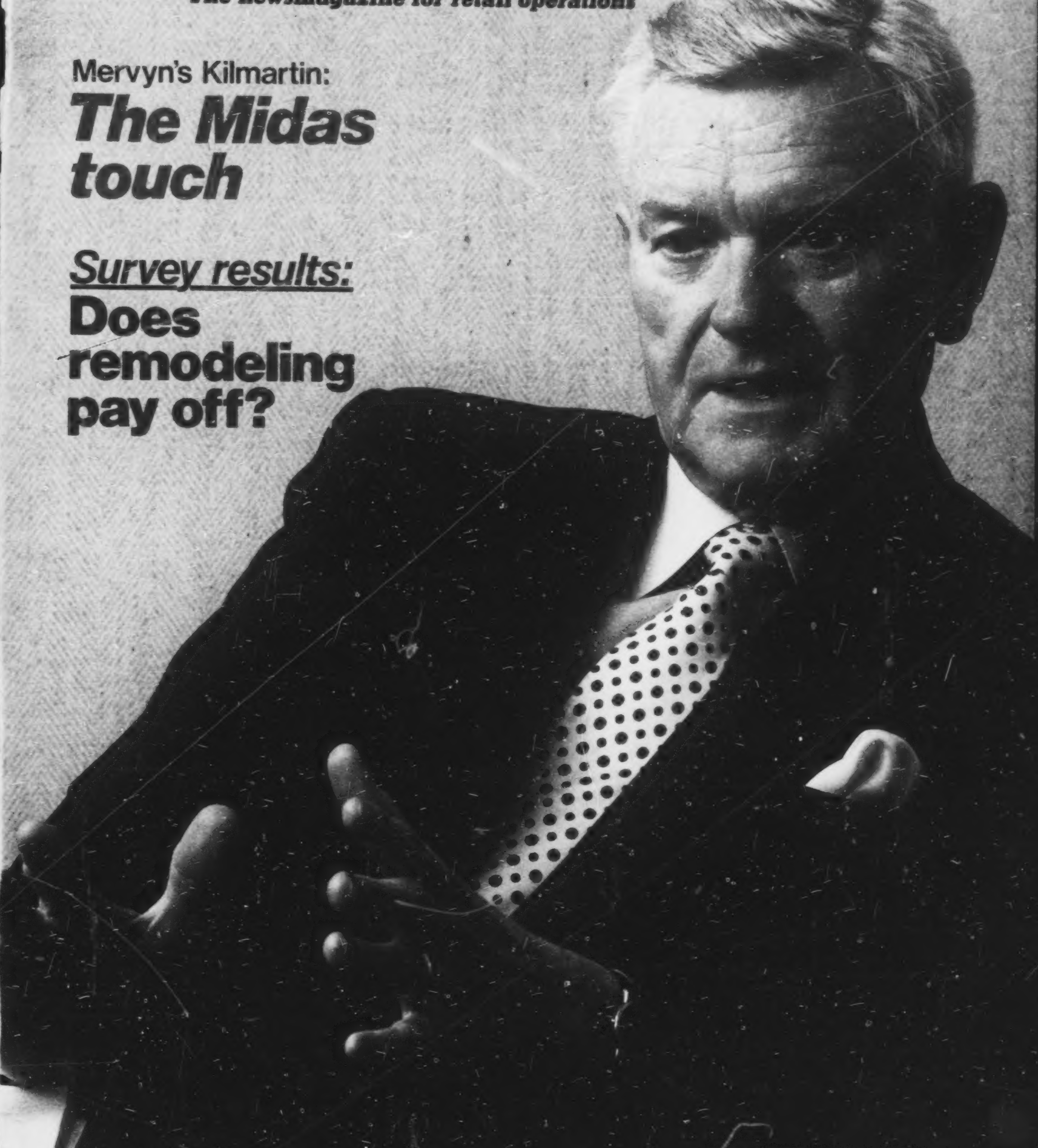
April 1985

Mervyn's Kilmartin:

The Midas touch

Survey results:

Does remodeling pay off?



TWENTY DOLLARS A YEAR (USA)

Chain Store Age EXECUTIVE

Volume 61, No. 4/April 1985

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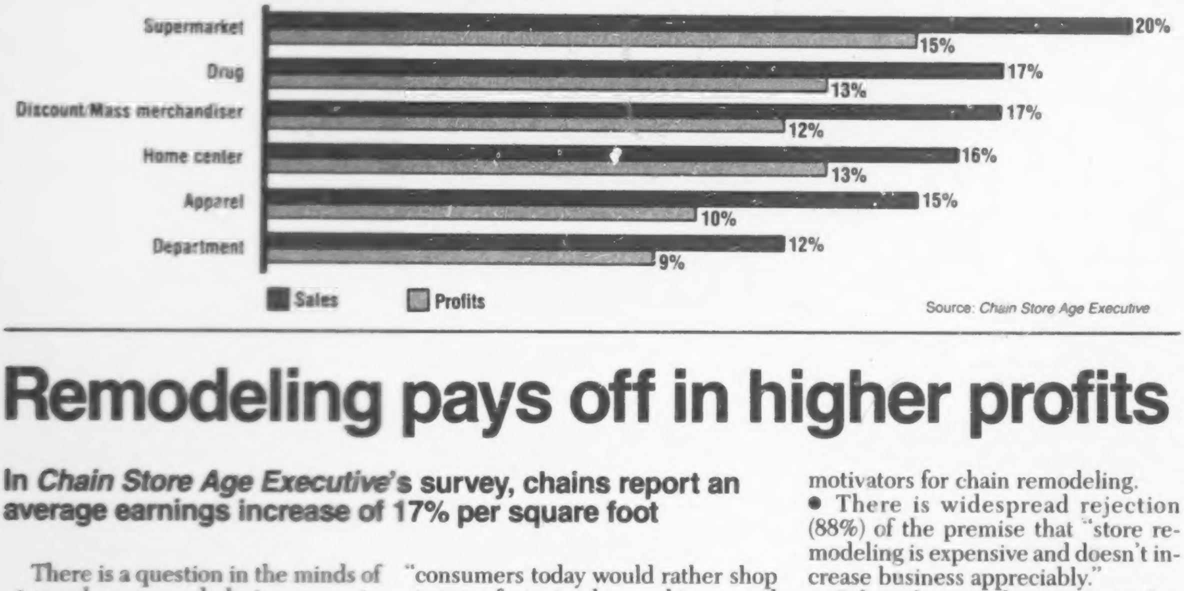
Chain Store Age EXECUTIVE April 1985

REMODELING SURVEY

Average per cent increase following remodeling—1984



Source: *Chain Store Age Executive*

Remodeling pays off in higher profits

In *Chain Store Age Executive*'s survey, chains report an average earnings increase of 17% per square foot

There is a question in the minds of store planners and designers as to whether store remodeling is as necessary an ingredient in maintaining market share as ordinary low prices.

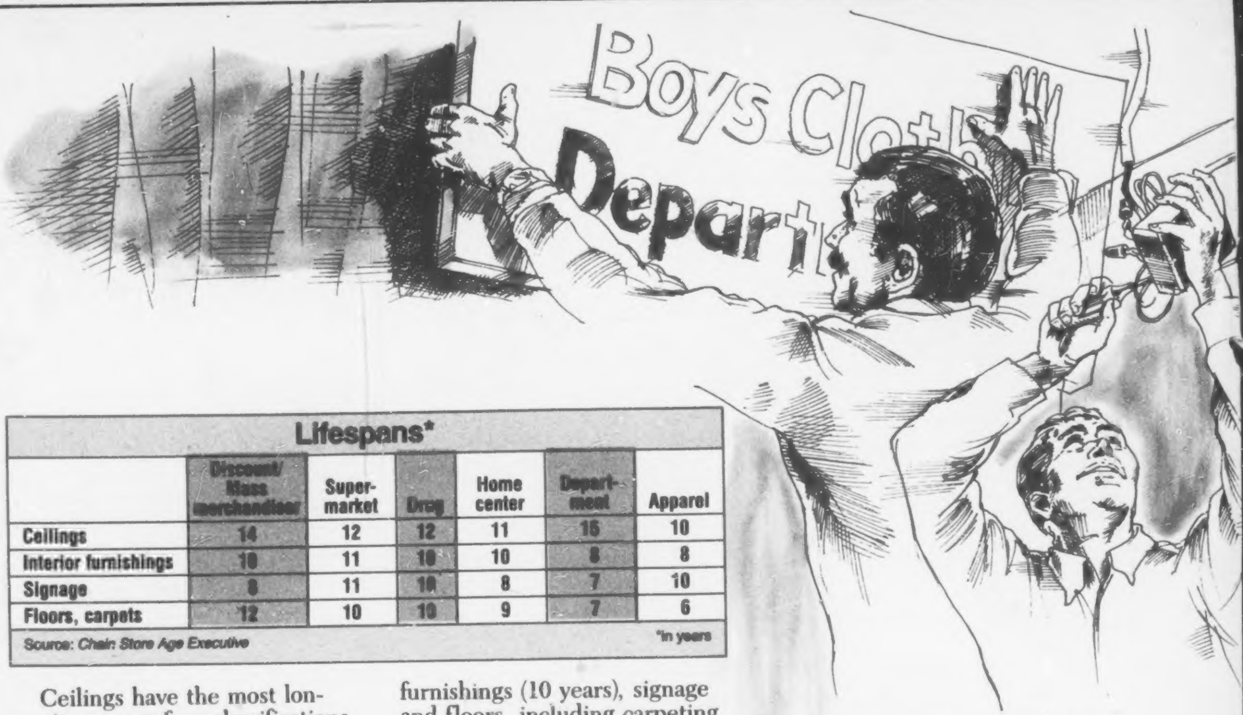
An exclusive survey by *Chain Store Age Executive* of 180 chains representing a cross section of discount/mass merchandisers, department, supermarket, drug, apparel specialty and home center stores disclosed that 87% of the respondents "agreed strongly/somewhat" with the premise that "distinct decor enhances a store's image and builds traffic."

However, the importance of esthetic appeal was questioned by 49% of all respondents who agreed that "consumers today would rather shop at stores featuring less ambience and lower prices than expensively-decorated, higher-priced stores."

Despite this attitude, the survey shows that sales and profits do increase after a remodel project and that the number of remodels in 1985 will increase over 1984 and projections are for further increases in 1986.

The survey also disclosed that:

- Supermarkets spent the most on remodeling ($24 a square foot) of all categories, and got the highest profit increase after remodeling ($15 a square foot).
- Prospects for tangible business gains, as reflected by sales and market share growth, are the dominant motivators for chain remodeling.
- There is widespread rejection (88%) of the premise that "store remodeling is expensive and doesn't increase business appreciably."
- Other than performance results, customer base expansion and decor and facility revitalization are prominently mentioned as being most influential in the remodeling decision.
- More than half (54%) of respondents generally conduct consumer research, mostly through an internal department, prior to remodeling.
- Remodeling activity will be pervasive this year, with a small accompanying increase in the projected average number of remodeled units.
- Compared with 1985, remodeling activity in 1986 will be marked by reductions in both the number of chains undertaking remodeling projects and in the average number of units target-



Lifespans*						
	Discount/ Mass merchandiser	Super-market	Drug	Home center	Depart-ment	Apparel
Ceilings	14	12	12	11	15	10
Interior furnishings	10	11	10	10	8	8
Signage	8	11	10	8	7	10
Floors, carpets	12	10	10	9	7	6

Source: *Chain Store Age Executive*

*In years

Ceilings have the most longevity among four classifications of structural components and fixtures in retail stores, according to *Chain Store Age Executive*'s survey on remodeling.

Ceilings last an average of 12 years before remodeling or replacement is needed. Replacement intervals for the other three components are: interior furnishings (10 years), signage and floors, including carpeting (nine years each).

The disparity in average lifespans between ceilings and other interior elements may be understated. A relatively large proportion of chains were unable to quantify a lifespan estimate for ceilings, maintaining that replacement hasn't been made in their experience, nor was it anticipated.

In general, fixture and furnishings replacement was somewhat less frequent in discount/mass merchandise, supermarket and drug chains than at home centers, department and apparel specialty stores.

---

ed for renovation.

- The majority (68%) of chains complete remodeling of a store all at once, rather than in phases over time.
- Of the various structural components and fixtures investigated, ceilings have the longest lifespan, lasting an average of 12 years before remodeling or replacement is required; a nine to 10-year average lifespan is characteristic of interior furnishings, floors, carpets and signage (*see accompanying story and chart*).
- The average chain remodeled 21% of its total stores in 1984.

Not surprisingly, given their fashion orientation and less utilitarian appearance, apparel and department stores were more likely than other trade classes to stress the importance of image and ambience on consumer shopping behavior.

A total of 77% of the apparel and 63% of the department stores agreed strongly that "distinctive decor enhances a store's image and builds traffic."

On the other hand, 63% of the discount/mass merchandisers, 70% of home centers, 57% of drug chains, and 50% of the supermarkets "agreed strongly/somewhat" with the statement that "Consumers today would rather shop at stores featuring less ambience and lower prices than expensively decorated, higher-priced stores." Only 23% of the department stores and 30% of apparel stores went along with that thinking.

Respondent profile		
	Average annual dollar volume (000)	Average number of units
Supermarket	$1,857,000	451
Discount/Mass merchandiser	549,000	90
Drug	341,000	181
Department	300,000	17
Apparel	207,000	401
Home center	150,000	49

Source: *Chain Store Age Executive*

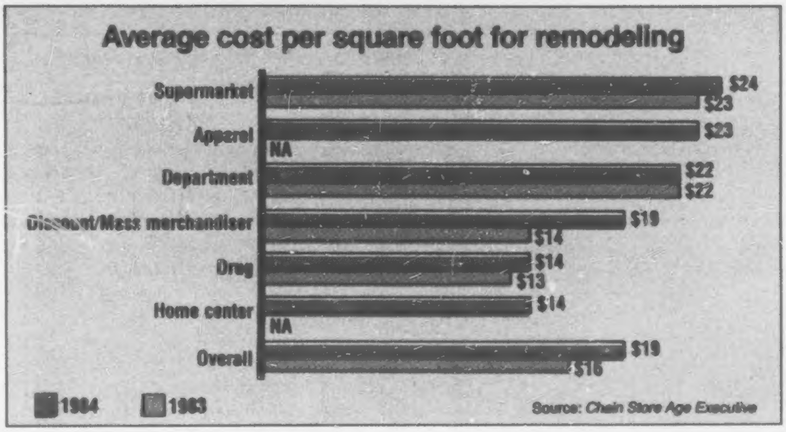
Most designers and planners agreed that remodeling is worthwhile in terms of increased business. In fact, only a mere 6% of all respondents "agreed strongly/somewhat" that "store remodeling is expensive and does not increase business appreciably."

Apparel specialty stores report the highest average number of remodeled stores among the six trade classifications, redoing an average of 39 stores, followed by discount/mass merchandisers (15), supermarkets (14), drug stores (13), home centers (9) and department stores (3).

However, as a percentage of total chain units remodeled, discount/mass merchandisers lead with 37%, followed by drug stores and home centers (23% each), department stores (17%), apparel (16%) and supermarkets (11%).

Although the survey discloses that remodeling projects will be undertaken by fewer chains in 1986, it points out that department stores and supermarket chains are most likely to remodel next year. In fact, significantly higher proportions of department store chains (83%) and supermarket chains (80%) than home centers (57%) and discount/mass merchandisers (53%) expect to remodel at least one store in 1986.

Renovations in 1986 will be curtailed most dramatically by home centers (cutting from an average 12 units remodeled this year to five in 1986) and discount/mass merchandisers (declining from 16 to 10 units).



Source: *Chain Store Age Executive*

Overall, chains spent an average of $19 a square foot on remodeling in 1984, compared with $16.83 in 1983.

The following are average square footage costs of remodeling by category in 1984 with the 1983 costs in parentheses: supermarkets, $24 ($23); apparel, $23 (not surveyed last year); department stores, $22 ($22); discount/mass merchandisers, $19 ($14); drug stores, $14 ($14), and home centers, $14 (not surveyed last year).

At the low end of the expenditure spectrum, 57% of drug chains spent $10 or less per square foot on remodeling, compared with 53% for home centers, 40% for discount/mass merchandisers, 13% for department stores and 7% each for supermarket and apparel chains.

Also, as noted, 16% of the chains realized a 16% sales increase after remodeling activity. Supermarket remodeling projects were most productive, generating an average sales increase of 20%. Incremental supermarket sales, however, weren't achieved without cost.

As mentioned previously, supermarkets incurred the highest remodeling costs ($24 a square foot) of the six surveyed categories.

Other average sales increases after remodeling included discount/mass merchandisers and drug chains (17% each), home centers (16%), apparel (15%) and department stores (12%).

Four out of five (80%) of the chains experienced an increase in profits per square foot after remodeling.

Supermarkets also had the highest increase in profits, attaining an increment of 15%. This was followed by drug and home centers (13% each), discount/mass merchandisers (12%), apparel chains (10%) and department stores (9%).

The impact of an on-going renovation on business varies substantially, the survey discloses. The remodeling process is more likely to stimulate sales in discount/mass merchandiser, department and supermarket chains while impairing business in apparel and drug chains.

The survey shows that 43% of discount/mass merchandisers, 40% of department stores and 33% of supermarkets reported business increases while renovating was taking place. At the same time, the proportion of chains experiencing business declines during renovations was 40% reported by apparel stores, 30% by drug chains, 23% each by home centers and discount/mass merchandisers, 20% by department stores and 17% by supermarkets.

When asked to explain why they remodeled, 52% of the executives surveyed cite store or facility aging as a prime reason. This was followed by "current, potential sales performance," at 28% and 21% cite "market conditions, potential demographic trends."

Other factors include competition (10%), condition of store facilities/maintenance (16%), enhancing the merchandise presentation or introducing merchandise (16%), potential profitability and/or return on investment (12%) and improving the visual, esthetic appeal, or need for a facelift (11%).

Supermarkets are more apt to evaluate sales performance and competitive activity when contemplating remodeling than are the other categories. Department stores cite greater emphasis on merchandising opportunities, departmental space allocations and profit potential. Discount/mass merchandiser remodeling efforts more frequently originate as a response to competitive activity and merchandise opportunities.

The chains were then asked to assess the relative importance of seven factors in their decision to remodel. Predominant among their answers were tangible barometers of chain performance, sales and market share. A total of 94% say that one of the reasons is the potential of increasing sales and 78% mention the potential of increasing market share.

Prospects for customer base expansion and decor and facility revitalization are also mentioned as important or very important by more than 50% of all the chains. Of these, 66% mention the potential of attracting a broader customer base, 57% cite creating a new look and 54% say aging of existing facilities. Only 38% say remodeling by competition is an important factor and 21% mention remodeling of a shopping center.

When it comes to conducting market research and soliciting consumer feedback, supermarkets and department stores are the highest with 70% and 67% respectively. These are followed by discount/mass merchandisers (60%), home centers (57%), apparel stores (37%) and drug chains (30%).

Chain remodeling projects averaged 34,000 sq. ft. in 1984. Department store renovations were most expansive, covering 82,000 sq. ft. on average. Discount/mass merchandiser remodeling efforts averaged 51,000 sq. ft., followed by supermarkets (26,000 sq. ft.), home centers (24,000 sq. ft.), drug chains (12,000 sq. ft.) and apparel stores (10,000 sq. ft.). ■

Chains optimistic about 1985 despite disappointing quarter

Sales and earnings for quarter ended in November, December and January

Chain	1984 sales (millions)	1983 sales (millions)	% change	1984 EPS	1983 EPS	% change
General Merchandise						
Sears[1]	$8,182	$7,945	3.0	—	—	—
Penney	4,430	4,170	6.3	$2.89	$3.47	(16.6)
Wal-Mart	2,074	1,547	34.0	0.77	0.59	30.5
Macy	1,456	1,308	8.9	1.98	1.93	2.6
Zayre	1,019	862	18.2	1.72	1.41	22.6
Supermarket and convenience stores						
Safeway	6,130	5,778	6.1	1.29	1.30	—
Kroger	3,870	3,778	2.4	1.25	0.93	34.4
Southland	3,127	2,719	15.0	0.65	0.64	1.5
Lucky	2,617	2,324	12.6	0.71	0.76	(6.6)
Winn-Dixie	2,349	2,204	6.6	0.73	0.86	(15.1)
A&P	1,366	1,206	13.3	0.71	0.24	195.8
Albertsons	1,244	1,146	8.5	0.75	0.70	7.1
Stop & Shop	945	801	18.1	2.25	2.14	5.1
Drug chains						
Revco	1,037	934	11.1	0.70	0.94	(25.5)
Jack Eckerd	889	777	14.4	1.10	1.02	7.8
Walgreen	715	613	16.7	0.51	0.41	24.3
Longs	417	350	19.1	1.20	1.07	12.1
Perry	121	96	25.7	0.54	0.53	6.0

( )decrease

[1] Sears Merchandise Group only. Operating earnings from this group amounted to $446.5 million, or a 3.1% decrease from the $460.9 million a year earlier.

Source: *Chain Store Age Executive.*

Excessive inventories and the drive to maintain market share by heavy price-slashing contributed to a disappointing fourth quarter for retailing in 1984.

But gross national product (GNP) grew by 4.9% in the same quarter and indications are that the economy will strengthen further this year. Many retailers and Wall Street analysts are projecting that retailing's sales and earnings will improve along with the general situation.

William Bass, chairman of Sears, Roebuck's Merchandise Group, for instance, is projecting a 6% to 7% sales increase in general merchandise this year over that of 1984 (*Chain Store Age Executive*, March 1985).

Dean Witter Reynolds' consumer spending model projects a general merchandise sales increase of 8% and 4.5% in units this year, and 6.3% and 2.3%, respectively, in 1986.

Some retail executives attending a recent symposium by Oppenheimer & Co. noted that they are a little concerned with the second half of this year. "The year looks pretty good for us," says Herbert Fisher, chairman and ceo of Jamesway, a discount chain. The last six months, he adds, might be of concern, mostly because of the calendar. There are six fewer shopping days between Thanksgiving and Christmas in 1985.

Malcolm L. Sherman, president, Zayre, notes that he hadn't seen anything that would indicate a difficult first half. It may not be a "great" first half, but it will be O.K., he says. About the second half, he says he isn't concerned about the number of days between Thanksgiving and Christmas. People always manage to shop for that season—earlier or later.

Sherman predicts that, given a reasonable economy, it has to be a "sensational" Christmas. Reason? Retailing hasn't had two mediocre Christmases in a row.

In order to help improve profits during the year, most retailers are looking to cut costs anywhere they see a budget. This applies to excessive clearance markdowns, related payroll expenses and new advertising costs.

Another area of cost cutting is in store expansion and remodeling. The buzzwords, says Dominick Segrete, a principal with the design firm of Tucci, Segrete & Rosen, are "challenge budget." This means that in prior times if a project went over budget by a few bucks, it was no big deal. Today, however, if a project has a budget of $4 million, the challenge is to come in below that amount by about $250,000 without cutting back on quality of materials.

In short, says Segrete, it's a sellers' market out there.

Although many retailers and analysts complain that the fiscal quarter of 1984 which ended between Nov. 30 and Jan. 31 was disappointing, it wasn't universally bad. At presstime, although final figures weren't available, indications were that chains such as Zayre, Allied Stores, Wal-Mart, The Limited, Kroger, Walgreens and A&P all had decent sales and earnings increases.

But for many retailers a fast-starting 1984 collapsed in the last part of the year. This resulted from the warm weather, plus pressures to increase productivity and market share, all of which resulted in unusual amounts of price slashing. K mart's chairman and ceo, Bernard M. Fauber, explains that "An industrywide overstocked condition created massive clearance sales throughout the entire country. Our own aggressive inventory reduction and promotional programs resulted in much heavier markdowns than expected."

Fauber explains that K mart's new merchandising programs require that many slow-moving items be dropped from the assortment. A decision was made to clear these items from the inventory in 1984 and not burden the stores with them in 1985. "While it was costly in the fourth quarter, it does free up the stores' open-to-buy in early 1985. Preliminary information indicates current inventory levels are near plan."

Commenting on J. C. Penney's 16.6% earnings decline in its fourth quarter ended Jan. 26, William R. Howell, chairman, notes that gross margin as a per cent of sales declined in the quarter and the year due to heavy markdowns. The markdowns were the sharpest in the final quarter when the anticipated surge in seasonal demand didn't materialize.

Penney's inventories at year-end were about 10% over plan, but are targeted to be in line with plan by the end of the first quarter.

Bernard Sosnick, analyst for L. F. Rothschild, Unterberg, Towbin, says that not only the excessive inventory buildup, but pressures on department stores by upgraded mass merchandisers and off-price retailers, contributed to excessive markdowns. ■

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The newsmagazine for retail operations
May 1985

AGING WITH THE BABY BOOMERS

Survey: strips or malls?

Expanded SCA Section

TWENTY DOLLARS A YEAR (USA)

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Chain Store Age
EXECUTIVE May 1985

With its FutureStore and its many specialty departments, A&P is hoping to attract more of the maturing Baby Boom generation.

COVER STORY

Adult Boom: The aging of the *wundergeneration*

The 70 million Americans born in the Baby Boom years, now adults, represent a whole new challenge to the retail industry

The great love affair between the retail industry and youth is ending—whether the participants like it or not.

Ever since the Baby-Boomers, those approximately 70 million Americans born between the years 1946 and 1964, first appeared on the scene, they have provided a major impetus for retail growth.

First, this generation helped to create the most rapid expansion in the history of the retail industry during the 1950's and 1960's. Then the key was providing products that appealed to the parents of this generation, those intent on providing for their offspring the very best of everything.

As the first surge of this wave hit the teenage years, the marketing strategies expanded and shifted accordingly. But youth was still the place for the retailer to be.

That's all about to change, now, though. The Baby-Boomers are all grown up. The first wave will turn 40 next year; the last wave is turning 21 this year.

Consequently, the term "Baby Boom" itself is about to become a misnomer; rather the "Adult Boom" will be "where it's at." Recognizing the ramifications is a major challenge for the retail industry.

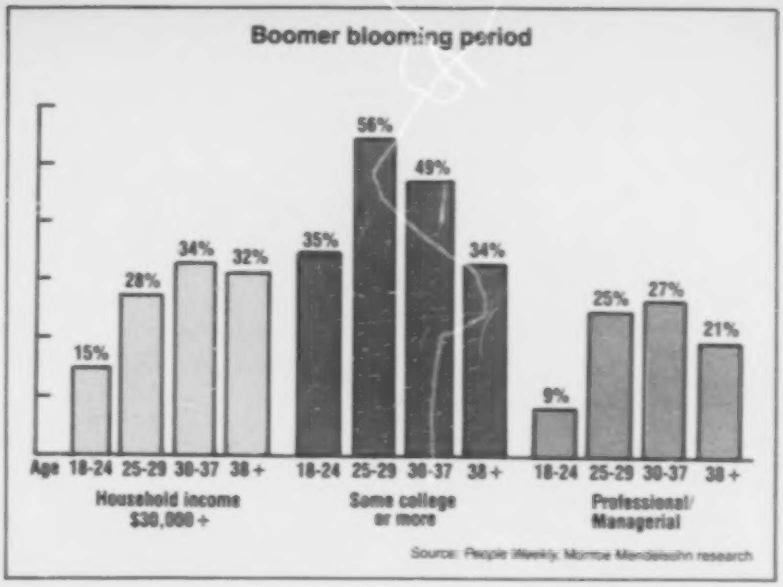
What has already happened is that "An awful lot of retailers who built a viable business in the past several decades focused on the Baby-Boomers," says C. W. Ress, president of C. W. Ress Associates, a retail consulting firm. "The problem, though, is that they didn't move. They didn't follow their changing lifestyles and values. Instead, they stuck with their original concept."

A prime example of the need to better understand this market is what has already occurred in the junior apparel business, with Lerner's having recently sold out to The Limited and Petrie acquiring almost everyone else in sight. While once there were 30 or more such chains, the list today contains far fewer names.

Those junior apparel chains that have survived have had to undergo a tremendous repositioning process in terms of dressing up their stores, adding quality and value. They aren't appealing to the teenagers anymore.

A chain that has found out just how tough such repositioning can be is The Gap. Having built its business by appealing to the youth-oriented market with jeans and other sportswear merchandise, The Gap moved late to change its image. The delay hurt. While the company managed to achieve an almost 9% increase in sales for its most recent fiscal year, ended Feb. 2, net income fell by a whopping 77%.

Yet, there are ways that it can be done, and the example cited most often is The Limited. "Outstanding" is



Source: People Weekly; Monroe Mendelsohn research

the limited

The Limited is regarded as doing an excellent job of following the moving target.

the adjective used when industry observers describe the chain's success in responding to this moving target. It understands its needs and wants and reflects these through not only the merchandise selection but also through service and ambience.

Other retailers are also finding opportunities to sell apparel to this group through targeting specifically the working woman. Reportedly, for example, Carson Pirie Scott has been successful with its Corporate Level full-service department catering to this group. Likewise, the New York City-based chain, Streets & Co. has been created entirely on the basis of serving the career woman's needs.

Developing ways to reach this group with apparel and other offerings is about to become imperative not just for retail success, but perhaps even for retail survival.

Statistics indicate that by 1990 nearly every other household in America will have as its head someone born during the Baby Boom years. These are households with money to spend.

Figures show that in 1984 the median household income for people between the ages of 25 and 35 was $22,776. This group presently controls 23% of the country's after-tax income. And they're getting richer.

For example, a study by the Life Insurance Marketing and Research Association indicates that already 25% of this generation makes at least $35,000, and they are only now approaching their peak earning years. The fact that many of these households contain two-career couples will spur income growth on even faster.

By the end of this decade, according to projections, these maturing Baby-Boomers will head every other household in America and will already account for more than half of all consumer expenditures. This represents what is the greatest single concentration of buying power ever assembled, according to Landon Y. Jones, author of *Great Expectations*, a comprehensive study of the Baby Boom generation, and assistant managing editor, *People Weekly*.

Yet, the big challenge for retailers isn't whether or not they have dollars to spend but rather how to understand what motivates and sets apart this special group of consumers.

This generation has already shown, in myriad ways, that it is different from the generations that have come before it. Most recently, as it has entered the adult years, "Instead of becoming adults in traditional terms, they kept drinking soft drinks, listening to rock music and leaning toward light beer, wine and the lighter distilled spirits," points out Joseph Plummer, executive vp of Young & Rubicam.

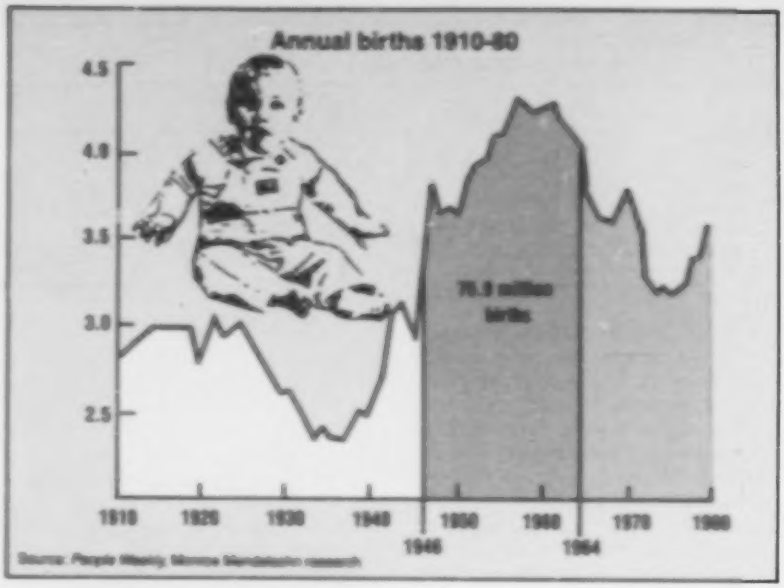
As Plummer points out, "Far more important than this generation's impact on history is their central role and impact on the near future. Therefore, we believe it is critical to understand this generation in depth in order to forecast the rest of the 1980's and the early 90's from a consumer marketing perspective."

Among the first retailers to really key in on trying to better understand the maturing Baby-Boomers was Federated Department Stores. As it began this decade, it started to explore the changes as the generation was about to "explode into their peak income years," according to the company's 1981 annual report. "Their large numbers and vastly increased earning potential offer great promise for retailers positioned to serve this upscale market."

Noting that the first wave of the Baby Boom reached 35 years of age in 1981, Federated believes that "As they grow older, Baby-Boomers will dramatically improve their relative earning position as they advance in their careers. Typically, job holders in the 35-44 age group have earnings 26% higher than the average for all earners." Throughout the 1980's, households headed by members of the 35-44 age group will be growing at twice the average rate of other household formations.

Obviously, this is good news for sellers of any products relating to the home. In fact, many observers believe that just as Baby-Boomers once expressed themselves through apparel, fueling junior apparel chain growth, this same desire for self-expression is now starting to show up through home furnishings purchases.

The projections for sales of various home furnishings categories appear to bear this out. For example, a study made by the Marketing Science Institute projects that sales of furniture



Source: People Weekly; Monroe Mendelsohn research

Baby Boom home do-it-yourselfers are increasing retail sales at Lowe's.

and home furnishings will increase from $72.2 billion in 1980 to $100.4 billion in 1990 in constant dollars. The study looks at the high number of household formations now taking place as the major impetus.

Likewise, the study points out that this will also help sales of kitchen and home furnishings, including cookware, tableware, flatware and holloware and decorator accessories "hold a very strong trend through 1990."

It also foresees more use of the home as a workplace, "the electronic cottage," and more entertainment in the home.

Ample evidence of such trends also shows up in a massive research study *People Weekly* recently completed with the aim of marketing its product to this consumer.

"Because Baby-Boomers are a group in transition, they represent tremendous potential for acquiring many products—especially those related to household formation," says the study. Home purchases are also shown to be on the rise.

One of the retailers most tuned into this trend is Sears, Roebuck, long dominant in almost all home furnishings categories, and especially in major appliances. Thus, Sears, while also emphasizing its apparel offerings, expects significant benefits from the fact that "so many of the Baby-Boomers are now in their prime home buying years." (Dayton Hudson is betting heavily on thistrend with the launch of its RG Branden's specialty home furnishings chain.)

An additional finding of the *People Weekly* study shows that among current home owners, 31% of the Baby-Boomers plan to stay in their current house and remodel it. This, then, bodes extremely well for still another retail segment—home centers.

"I think that because of the maturing of the Baby Boom generation we are right at the beginning of the time when they will start to concentrate on fixing up their homes. Consequently, I think the next few years will see substantial growth in the home center business," says a spokesman for Lowe's, headquartered in North Wilkesboro, N.C., and one of the nation's most successful home center operations.

He points out that today the home center industry has estimated sales of $60 billion annually; by 1990 it is projected to climb to $202 billion. "That's significant growth," he says, in somewhat of an understatement. While Lowe's has not yet researched specifically the maturing Baby-Boomers, it has studied behavior of members of the 25 to 54 age group. Eighty-five per cent of the households it has researched have indicated that they think spending to increase the value of their home is a good idea. "They view the appearance of one's home as a true reflection of taste, style, social position and personal identity."

In addition, these consumers view the home as an important place for recreation and for entertaining, according to the Marketing Science Institute study. Consequently, "The grouping of electronics, which includes hardware and software for television, audio, cable TV as well as the burgeoning home electronics classification and radio, television and electronic repairs, is predicted to increase from $22 billion in 1980 to $81 billion in 1990 [in 1980 dollars], a compound annual growth rate of 13.9%." This is the fastest rate of growth of any of nine merchandise groups included in the study.

This projected sales increase is fueling the growth not only of electronics departments in department, mass merchandise and discount store chains, but also of specialists in such products, operations such as Circuit City or the Federated Group.

As Keith Powell, Federated Group president, says, "Our primary customer from the beginning of our company has been the 25-49 age group. As the Baby Boom generation began to enter this demographic group, it prospered. So did Federated Group. "We began to see business take off from about 1977-78," Powell observes. He adds that the knowledgeability about consumer electronics among the current crop of 25-49ers is "1,000 times greater" than it was for their predecessors. And not only are they enamored with technology, but they are also endowed with "pretty good disposable income."

Yet, Plummer cautions even those retailers who appear to be well-tuned into the Baby-Boomers to beware of what he refers to as the Experience Loop. Members of this Baby Boom generation tend to think of the shopping, buying and owning process as being on a continuum, he says. If they are turned off anywhere along the line, the retailer can lose them.

Because they are accustomed to having so many options open to them, "It is no big deal for them to decide to go somewhere else" if they are turned off by such factors as the non-availability of late night shopping hours, for example.

Another factor which stands out in the Y&R research is "the great appreciation this generation has for esthetics," says Plummer. Many of the retailers who are currently having the greatest success in reaching out to these consumers (including again The Limited), "are those such as the Ital-

Television, audio equipment, musical instruments and supplies

	1967	1980	The Forecast 1980-90	1990
Per capita sales*	$ 26	$ 87	+12.4%	$ 279
Retail sales ('80 dollars in millions)	$5,135	$19,706	+13.2%	$68,000

*Based on population 18 years of age and older.
Note: All percentages are compound annual growth rates.
Source: Marketing Science Institute

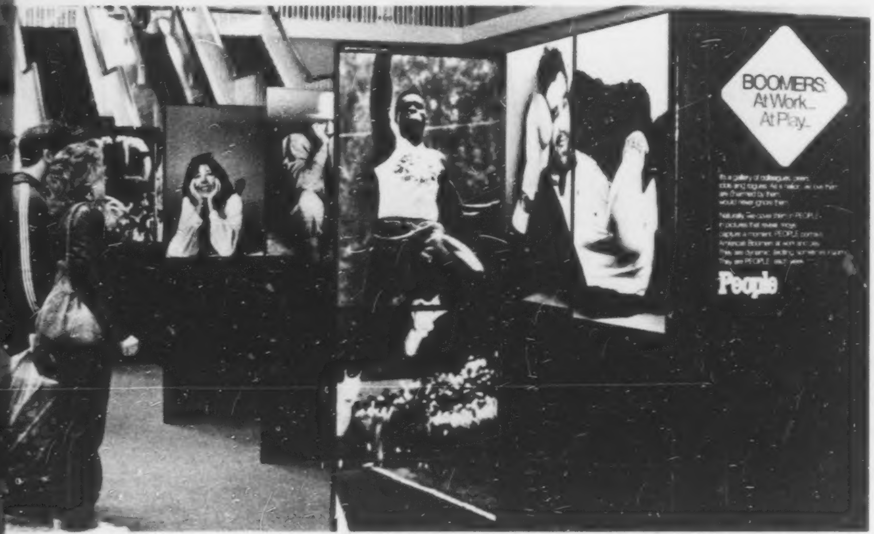
Electronics group

	1967	1980	The Forecast 1980-90	1990
Per capita sales*	$ 40	$ 97	13.1%	$ 331
Retail sales ('80 dollars in millions)	$7,917	$21,957	13.9%	$80,700

*Based on population 18 years of age and older.
Note: All percentages are compound annual growth rates.
Source: Marketing Science Institute

ian-chain Benetton which presents a strong consistency of esthetics with what they're selling. Everything hangs together," he points out.

"The Baby-Boomers need to be stimulated not only in merchandise content, but in store design and presentation as well as advertising," says Karen Bohnhoff, vp-trend merchandising, Dayton Hudson Department Stores. "This is a result of their self-focus plus the increased knowledge and exposure that these people have compared to other generations," she adds, noting that this generation literally grew up with a TV in front of them.



People magazine's exhibit, "Boomers: At work . . . At play . . .," is touring regional malls.

According to Bohnhoff, Dayton Hudson has been focusing on finding out more about this generation "for a lengthy period of time" using a number of market research sources. Conran's is another company which early on responded to these changing population trends and created a concept based largely on the esthetic sense of this Baby-Boomer generation. This home furnishings chain is the U.S. subsidiary of Habitat-Mothercare. Since the opening of the first store in New York City in 1977, the chain has grown to 12 units. Plans call for a large number of additional units as the chain expands to both more urban and suburban locations.

In Great Britain, where the chain is already a dominant factor in the home furnishings marketplace, the latest Habitat offshoot is a new chain called Heals. As Pat Grabel, Conran's U.S. marketing director, explains the concept, "The idea behind Heals is to provide good-looking, higher-priced furniture, featuring better materials and more sophistication, so that anybody who's perhaps outgrown Habitat will shop there. We are trying to be more things to all people."

Although there are no plans at present to bring Heals to the U.S. market, Grabel adds that Conran's mix is also evolving to include more such merchandise. It's what she refers to as "moving the concept along" as Conran's target market matures.

Another chain that's moving its concept along is Great Atlantic & Pacific Tea Co. Like many other supermarket chains, A&P has had its problems during recent years. Now, though, it appears well-equipped with a new strategic plan, one that definitely involves reaching out to that aging Baby Boom consumer.

One of its major vehicles for achieving this goal is its FutureStore (*Chain Store Age Executive*, December 1984). The design of the store itself takes into account Plummer's Experience Loop. As Michael Rourke, vp-public relations, says, "The FutureStore is very unique in terms of overall design and atmosphere. All of our specialty departments and boutiques make the atmosphere more conducive to pleasant shopping."

He adds that with the FutureStore as well as with the design of other A&P units, "We are also definitely looking for the young families with young children. Our baby departments are very important in accomplishing this and we are putting a lot of emphasis on them."

Rourke points out an important fact. The maturing Baby-Boomers are creating a Baby-Boomlet of its own. Statistics from the National Center for Health show that from 1981 to 1985, first-time births will account for 43% of all births—and although the percentage is expected to start decreasing next year, there are more still on the way. Significantly, new parents are reported to spend $3,000 to $4,000 in new equipment for first-time births. That's good news for chains such as Toys "R" Us, Child-World, The Children's Place, and a host of others which are emerging in response to this projected demand. (*See story on The Enchanted Village.*)

Stronger children's wear sales are already starting to move up through the age groups, observes John T. Cullen, senior executive vp, Allied Stores. "Right now it's reached the 3X to 6X size grouping and business is very strong in this area. Over the next few years the strength of the children's business will go up through the older age groupings."

Yet, while these and other retail opportunities exist, reaching the Baby Boom, or rather the Adult Boom won't be easy. Although it is about to enter middle-age, it won't resemble earlier generations. It will continue to be diverse in its lifestyles and in its values. It will create a retail environment where the challenges are greater than ever. But the potential rewards are unprecedented. Retailers who respond, who follow the moving target, will be the great winners of the future. ■

—Jacquelyn Bivins

The secret to boosting store traffic is to include only enough product description to lure the consumer into the store.

Catalog options: Mail-order or store traffic?

Much has been written in recent months about whether or not consumers are being besieged by catalog glut. Ask your postman about it and he's sure to snarl and rub his aching back. But ask a retailer or a direct mail consultant and you'll find that there's always room for one more.

The growing use of catalogs by retailers parallels the growth of the mail-order industry itself. Catalogers, as retailers' mail-order counterparts have come to be known, are booming. Opportunities presented by decreased leisure time (as well as shopping time) have boosted mail-order sales *(see chart)* and spurred the number of new entrants into the marketplace.

Recognizing the potential, many retailers have piggybacked on this shift in consumer buying patterns to launch catalogs of their own. Whether this phenomenon has contributed to or resulted in catalog glut, however, is a matter of opinion.

"The ones [retailers] who aren't doing so well bring up catalog glut," claims one consultant. "The ones that are doing fine don't talk about it much."

Although on the surface it would seem retailers and catalogers are in business for the same purpose, that's a misleading assumption in all but a handful of cases.

While both retailers and direct marketers produce catalogs, the majority of retailers' catalogs are better suited to building store traffic, not mail and phone sales. The reasons for this, however, are not always known to retailers, many of whom don't understand why expected mail and phone sales aren't coming in.

The problem is that many retailers don't understand that their reluctance to set up separate mail-order operations (dedicated inventories, separate order fulfillment procedures) as well as their dependence on vendor co-op dollars make true mail-order sales difficult at best.

Most retailers' catalogs are better suited to building store traffic, not mail and telephone sales

Without a totally separate operation, retailers determined to build mail-order sales run the risk of not being able to provide adequate customer service.

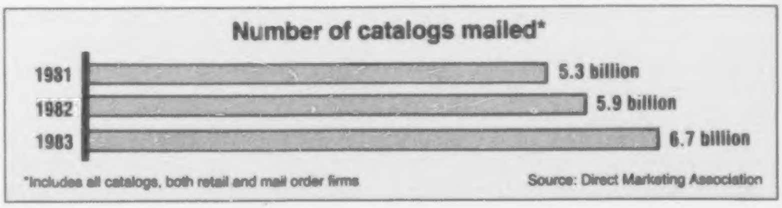
For example, if a retailer doing $100 worth of business in a certain department thinks he can boost sales to $110 just by sending out a catalog, he's making a mistake, according to Barry Marchessault, vp-direct marketing for Bloomingdale's.

"What happens is you might create a demand for 500 items and those customers [whose orders aren't filled] are never going to shop with you again," he warns. "In the retail business you buy an inventory and sell it off. In the mail-order business, you create a demand and fill it."

The second stumbling block to retailers' mail-order sales is heavy reliance on co-op dollars, a situation which results in an insufficient variety of merchandise in a catalog.

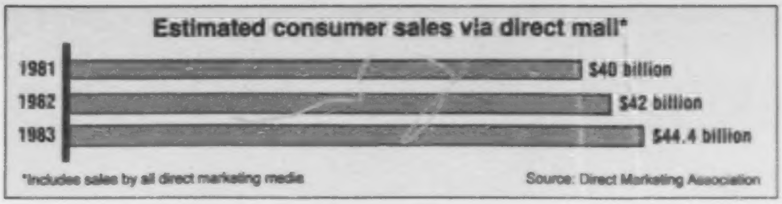
Typically, those vendors willing to provide big co-op monies are those who manufacture name brand goods. When different retailers all rely on that money to cover expenses, the result is a large number of catalogs in the market place that list the same goods.

"What you end up with," says Marchessault, "is 10% of the vendors



*Includes all catalogs, both retail and mail order firms

Source: Direct Marketing Association



Source: Direct Marketing Association

***Decreased shopping time** has spurred the number of entrants in the catalog marketplace.*

pay for 100% of the costs." Distinguishing or unusual merchandise, essential to creating a catalog image, gets phased out in favor of branded goods. In addition, this lessens the need to purchase goods by mail because the same goods are so readily obtainable in any store.

Unlike most other retail chains, Bloomingdale's is a direct marketer. Its catalog operation, Bloomingdale's By Mail, is reaping the success of being able to represent the chain's trendy image via catalog. The merchandise, says Marchessault, is "unique, with high perceived value," in order to reach its core customer, precluding the extensive use of co-op dollars.

"If the catalog that's coming into the home is in the image of the reputation they've [the chain] built up, and it's representative of the niche they're trying to fill, only then is it going to be directed to the core customer they're trying to attract," explains Marchessault.

Besides merchandise offerings consistent with its trendy image, Bloomingdale's Marchessault also relies on using a consistent size (physical dimensions) for each type of catalog it offers. "There's a size representative of what we want to do with apparel; a size that's very good for home products and a third size for specialty catalogs," he explains.

At Neiman Marcus, senior vp, director of mail order, Bill Williams, points out that a chain's image is conveyed by much more than merchandise assortment: "It has to do with the use of visual space, quality of printing and paper and photography, your resource structure and [showing goods that are] the best representatives of your price points."

A consistent image should be maintained across every sort of media, Marchessault says. "The best ad for a retailer that you can see is when you pick up a newspaper and right away you know what store it is without looking at the logo."

The best example of this is the recognition factor that Jordan Marsh of Boston attained with its Jack and Jill catalogs. The first one using this theme, published five years ago, was so successful, that Jordan Marsh has come to be known by some of its customers as the Jack and Jill store.

While a catalog's image should be consistent with the chain's image no matter what the goal of a catalog, other factors do vary depending on whether the retailer is using the catalog to boost traffic or mail-order sales. According to Williams, there's a difference between how it's funded, photographed, stocked and what product descriptions are used.

"A retailer [trying to boost traffic] would try to fund the book with zero investment for himself and would select the goods based on who has co-op money vs. what the salability of the item is," Williams notes.

"You would select items that make a general statement about your business rather than items that would lead somebody to an immediate response," he continues, "and you'd give enough information to pique someone's interest but not enough to place an order.

"For example, you may show a dress in red and say it comes in red and blue and who the designer is, but you might not give sizes or fabric or care instructions. The customer would find that out when she came in the store. And then, if you don't have it in her size, you're going to sell her something else."

A retailer intending to reap mail-order sales, on the other hand, must approach the catalog from a different direction. For starters, he should be wary of letting his store buyers control it, says Dick Hodgson, a direct mail consultant with Sargeant House of Westtown, Pa. "In a store, if you've got a good piece of merchandise, you've got all kinds of options," he states. "You give it extra shelf space; you can put it in the window and put up extra store banners, run more newspaper ads, change the price or move it to a different department. In a catalog you've got one shot at it—either it sells or it doesn't sell."

According to Hodgson, buyers for catalogs must have a different orientation that requires much more forethought: "When you select merchandise [for a catalog], you have to have already decided how you're going to present it. They [the buyers] have to think, 'Can we take a picture of it?' 'Will the picture show what it has to show?' 'How much space will it take in words to describe it?' 'Will there be enough space to do that?' 'Is the price point going to be right?' 'Can people order this without specific instructions?'"

Jordan Marsh of Boston is an example of a chain that has opted for using a catalog for positioning and to attract traffic, not necessarily for attracting mail-order sales. It relies on using copy in its catalogs that will entice the reader into coming into the store.

Donald O'Brien, senior vp-direct marketing, is adamant about Jordan Marsh's use of catalogs. "We are not direct marketers," he states. "I really don't want you to pick up the phone and order. I want you in the store." That way, he says, he has a much better chance of selling "a heck of a lot more" than a direct marketer.

"The basic difference between what we do and what a direct marketer does is the direct marketer is taking an entire store to one person; we're trying to take a lot of people into an entire store," explains O'Brien.

While a catalog should be consistent with the chain's image, other factors vary depending on its function

"I don't really want dedicated inventories of advertised-only merchandise; I want it on the floor," he says. "I want to make sure when you come in, I have it [the merchandise] in your size and color and hopefully if you buy that white coat I advertised in the book, you'll also buy the pumps to go with it and the bag that completes it." The success of the catalog is derived instead from increased store traffic and "radiation" sales.

Unlike the mail-order customer, who "buys a piece at a time," says O'Brien, the retail customer should be enticed into the store by the goods in catalog. Once there, the radiation sales are as important as the sale of catalog merchandise.

Jordan Marsh can then track its effectiveness "quite accurately," O'Brien reports. "We can track who got a book, who responded in the advertised departments and what that response meant to other departments in the store."

This is done by matching credit card sales against the names on the catalog mailing list, he explains. "Within a certain period of time, I know you got a catalog and you made a transaction in the advertised area of the store. I also know that during that same period, maybe you came in and bought a pair of shoes advertised in the shoe catalog and maybe you also bought a purse and a jacket."

Regardless of whether a chain opts for store traffic or mail-order sales, retailers have certain advantages over direct marketers that justify the production of either type of catalog even if other media is already being used.

For starters, says John Canova of Canova and Co., Alexandria, Va., they have two channels of distribution: the store and the catalog. "It provides the catalog with an extra avenue of sale and therefore an extra avenue for economic justification."

But it's much more than that, states Al Schmidt, currently president of Myron Manufacturing and formerly vp-direct marketing at both Brooks Brothers and Bergdorf Goodman.

"Retailers have a unique position in the catalog industry. They begin with a predetermined image in their marketplace," he says. "Even if a customer has never entered the store, if he lives in the market area he has been bombarded with advertising from that retail store for years. There is name recognition." In contrast, "a direct marketer coming into a fresh area has no recognition factor at all."

This existing image can be capitalized on in two ways: if a retailer's goal is to build traffic, mailing the catalog to known customers (*i.e.*, credit card customers) should produce results.

A retailer seeking mail-order sales, says Williams, can extend recognition of his chain through the use of national or regional magazines like *New Yorker, Vogue, Smithsonian* and special interest publications, thereby allowing the use of outside noncustomer lists. That way, a retailer isn't limited by geography, he says.

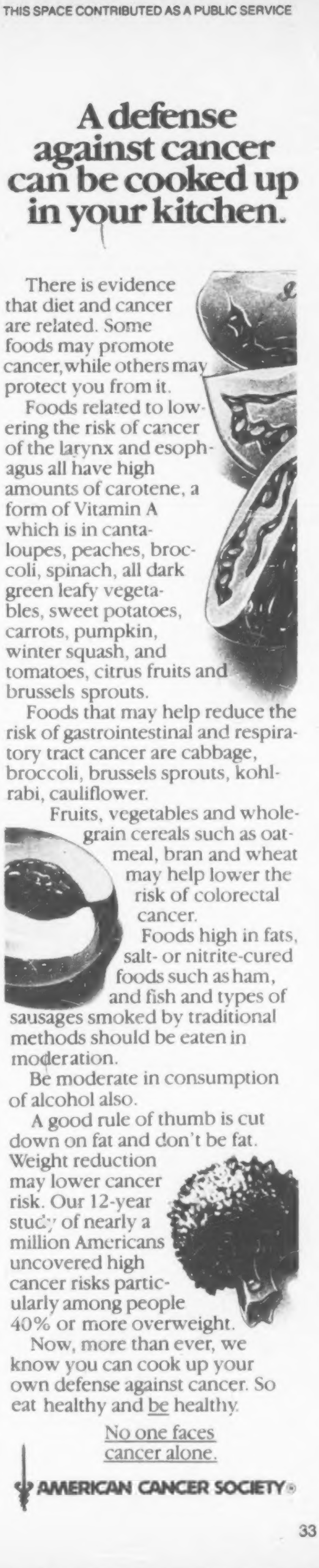
Hodgson reports that he recently worked with a department store chain on the West Coast that sought to build mail-order sales, not traffic. "We tested 22 [mailing] lists—21 outside lists and the chain's own house list. The house list came in No. 22."

Co-op money, which has already been shown to be detrimental to mail-order sales if used to excess, can be beneficial if used in moderation.

"The numbers for retail stores work differently from the way they do for a direct marketing operation," notes Schmidt. "The average direct marketing operation doesn't have the tremendous abundance of co-op dollars available to it. So the retailer doesn't have [to achieve] the same levels of success to remain in existence that a direct marketer does."

However, inclusion of an item in a catalog should not be based on the availability of co-op funds. "We don't turn down vendor monies," notes Jordan Marsh's O'Brien, "provided the vendor fits into the scheme of what we're trying to accomplish." ■

—Holly Klokis



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A defense against cancer can be cooked up in your kitchen.

There is evidence that diet and cancer are related. Some foods may promote cancer, while others may protect you from it.

Foods related to lowering the risk of cancer of the larynx and esophagus all have high amounts of carotene, a form of Vitamin A which is in cantaloupes, peaches, broccoli, spinach, all dark green leafy vegetables, sweet potatoes, carrots, pumpkin, winter squash, and tomatoes, citrus fruits and brussels sprouts.

Foods that may help reduce the risk of gastrointestinal and respiratory tract cancer are cabbage, broccoli, brussels sprouts, kohlrabi, cauliflower.

Fruits, vegetables and whole-grain cereals such as oatmeal, bran and wheat may help lower the risk of colorectal cancer.

Foods high in fats, salt- or nitrite-cured foods such as ham, and fish and types of sausages smoked by traditional methods should be eaten in moderation.

Be moderate in consumption of alcohol also.

A good rule of thumb is cut down on fat and don't be fat. Weight reduction may lower cancer risk. Our 12-year study of nearly a million Americans uncovered high cancer risks particularly among people 40% or more overweight.

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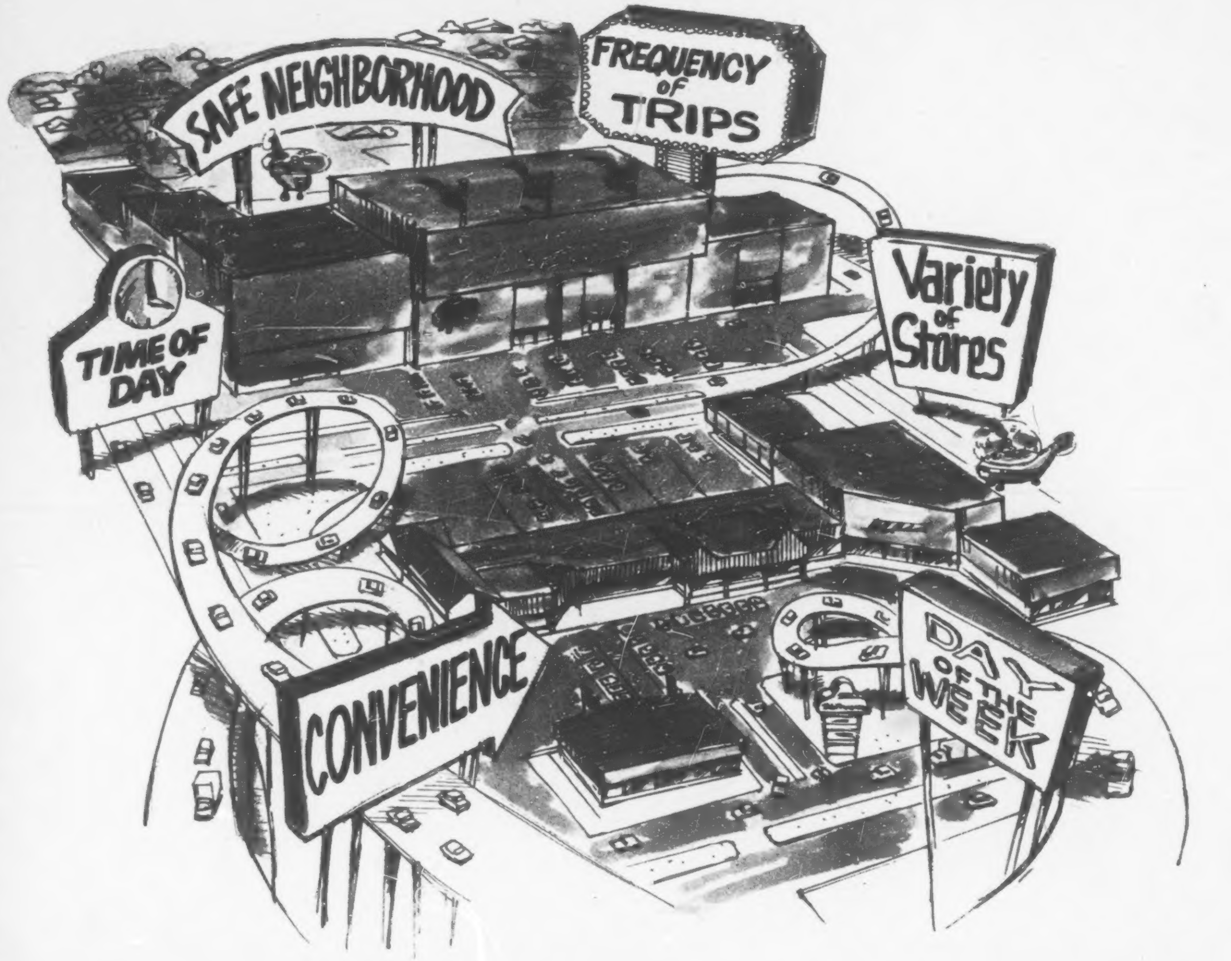

Survey discloses shifts in shopping center choices

Consumers have become increasingly concerned during the last four years about the safety of the neighborhoods where they shop but less price sensitive.

This is one of the inferences that can be drawn from a recent study of consumer shopping patterns conducted by *Chain Store Age Executive* magazine.

The research includes an exploration of the behavioral differences between primary shoppers of large enclosed malls and small neighborhood strip centers. A look at both shopping patterns and the underlying need-oriented influences of shopping behavior is included.

Interviews were carried out by telephone with heads of households in five major market areas: Boston, Atlanta, Indianapolis, Dallas and San Diego. The last time a similar study was conducted by this publication was in 1981.

Heads of households in Boston, Atlanta, Dallas, Indianapolis and San Diego responded to the survey

Despite the high level of activity in strip center development, one of the study's most surprising findings is that a smaller proportion of the respondents are small neighborhood strip center shoppers than they were when the last study was conducted.

Specifically, 85% of the respondents report visits to small centers during the past six months, down from 94% in the 1981 study. In contrast, 93% of the respondents visited large enclosed malls during this time frame, up considerably from 85% of the 1981 respondents.

One possible reason for this change is that concern over transportation costs, and specifically gasoline prices, was much more prevalent during 1981. That year also marked the real beginning of the most recent recession.

It is not surprising, though, that trips to neighborhood centers are much more frequent than to the major malls.

Visits to the neighborhood strips occur, on average, once every 2.7 weeks, compared with an average of once every 5.7 weeks for the mall shoppers.

In a related question, 73% of respondents report visiting a small strip center most frequently, up from 61% in 1981, while 26% visit a large enclosed mall, down from the 1981 figure of 38%.

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Use of computerized directories is a feature growing in popularity; of those respondents who have them available, 75% have made use of them.

Factors influencing choices of centers

	Large enclosed mall		Neighborhood strip center	
	1985	1981	1985	1981
(BASE = TOTAL RESPONDENTS)	(162)	(179)	(292)	(283)
Reasonably priced merchandise	77%	89%	81%	89%
Safe surrounding neighborhood	76	66	81	60
Wide variety and selection of merchandise	77	88	79	81
Adequate parking space	77	78	76	75
Knowledgeable salesmen	64	70	60	64
Convenience to your home	62	70	63	73
Convenient evening hours	61	61	55	51
Store sales	54	66	56	60
Advertising and flyers promoting mall or store events, sales	40	32	35	32
Restaurants or fast-food outlets	25	31	26	21
Special events such as art shows	5	11	6	6

Source: *Chain Store Age Executive*

The greater frequency of small center shopping is logical since these centers usually include such convenience-oriented tenants as supermarkets and drug stores.

This slight shift may also be a reflection of the greater number of women in the work force who now have less time to drive the distances involved in mall trips.

The study shows, for example, the average drive time for large enclosed mall shoppers proves to be 17.4 minutes, or over 100% greater than the 8.4 minutes travel time to small neighborhood strips.

However, in addition to travel time, judging the selected factors that are "extremely/very important" in the decision to shop at a particular center, respondents clearly express their concern with neighborhood safety.

While in 1981 66% of those who shopped most frequently at a large enclosed mall placed safety on their list of such factors, the number is up to 76% this year. The increase is even greater for those who shop most often at a neighborhood strip center with the percentage of respondents including this factor rising to 81% from 60%.

Respondents' No. 1 complaint about their regular center is congestion—poor parking and crowds

The only other factor which increased in importance among mall shoppers is advertising and flyers promoting the mall or store events, sales, which was cited as "extremely/very important" by 40% of this year's respondents, up from 32%.

Increases are more prevalent, though, among those who shop most frequently at strip centers. Among the factors which are greater in importance are the following: "adequate parking space," up slightly to 76% from 75%; "convenient evening hours," up to 55% from 51%; "advertising and flyers promoting mall or store events, sales," rising 35% from 32%, and "restaurants and fast food outlets," up to 26% from 21%.

In contrast, the two price-related factors, "reasonably priced merchandise" and "store sales" decreased significantly for both groups. "Reasonably priced merchandise" is rated "extremely/very important" by only 77% of the large enclosed mall shoppers, down from 89% in 1981, and by 81% of the strip center shoppers, down from 89%. Similarly, the importance of "store sales" fell to 54% from 66% for mall shoppers; to 56% from 60% for strip center shoppers.

One possible explanation is that, particularly as a result of the heavy promotional activity during this past Christmas selling season, consumers now regard sale prices as a given at their favorite centers.

Saturday is the most popular shopping day for more than one-half of the neighborhood strip center (57%) and large, enclosed mall shoppers (56%). While Friday is next in popularity, it appears neighborhood strip center respondents (49%) were significantly more likely to visit their regular center on this day than were their large enclosed mall (34%) counterparts.

For large enclosed mall shopping, next in popularity as a shopping day is Thursday, for 27%. This is followed by: Wednesday, 25%; Sunday, 25%; Tuesday, 22%, and Monday, 19%.

Off-price centers: Getting to be a habit

Off-price centers were a new area of inquiry for this year's study of consumer shopping behavior.

The study indicates that shopping at such centers is becoming a fact of life for many consumers. This is probably due to two factors: the increasing number of such centers and the fact that consumers now perceive these centers as a place where they can find true values.

The research shows that 55% of all respondents have shopped at an off-price center within the past six months. They make such shopping trips only slightly less frequently than they visit regional malls.

For example, 32% of off-price shoppers visit a center once a month; 31% of regional mall shoppers visit a mall based on this same frequency. Likewise, 16% of off-price shoppers visit such a center once a week or more; 13% every two weeks and 4% every three weeks. Also, 18% of enclosed mall shoppers visit once a week or more; 23% once very two weeks and 6% once every three weeks.

However, there are more what can be termed "occasional" shoppers of off-price centers: 14% of this group shop at these every two months while 18% shop at such centers once every three months or less. Eight per cent of mall shoppers cite a frequency of once very two months for their visits; 15% once every three months or less.

Somewhat surprisingly, 7% of the research respondents report that they shop most frequently at off-price centers. On this measurement, though, small neighborhood strip centers, at 68%, and large enclosed malls, at 24%, still dominate.

OPPS & TROWSERS
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Large enclosed mall respondents visit 6.3 stores on an average trip to their regular center.

The shopping patterns for neighborhood centers are similar. Friday is followed by: Thursday, 36%; Wednesday, 28%; Tuesday, 25%; Monday, 22%, and Sunday, 18%.

As for the time of day shopped, 46% of those who cite a mall as their prime shopping place are most likely to visit there between the hours of noon and 3 p.m. However, for the neighborhood strip center shopper, this time period ties in popularity with between 3:01 p.m. and 6 p.m. at 35% in each time frame. The latter time period came in third in popularity among the large, enclosed mall respondents, at 31%.

Slightly more popular was the time frame before noon, at 33%. This, though, was last in popularity for the strip center shoppers, at 27%. Instead, for them the hours between 6:01 p.m. and the center closing came in at third place, cited by 31%. Surprisingly, given the industry's emphasis on making late night shopping popular, this time frame was least popular for the mall shoppers, cited by only 27%.

Given the larger number of stores contained in such centers, it isn't surprising that the average duration of two hours and 10 minutes of a shopping trip to a large enclosed mall is significantly higher than the one hour and 15 minutes for a regular visit to a strip center.

Correspondingly, large enclosed mall respondents visit 6.3 stores on an average trip to their regular center, significantly higher than the average number (2.7) visited by small neighborhood strip center shoppers.

Awareness vehicles for sales or events

	Large enclosed malls	Neighborhood strip centers
Daily/Sunday newspaper	51%	48%
Circular/flyers	36	44
Weekly newspaper	20	21
Sign in store	15	19
Word of mouth	14	5
Television	6	4
Radio	4	2
Bill inserts	3	2

Note: Individual percentages do not add up to 100% due to multiple responses.
Source: *Chain Store Age Executive*

For both groups, newspapers are the primary source of information about sales and special events.

Approximately one-half of large enclosed mall (51%) and neighborhood strip center (48%), respondents find out about sales/events at their regular center through such advertisements.

Circulars/flyers, the next most prevalent means for obtaining such information, are used more typically for neighborhood strip center (44%) than large enclosed mall shoppers (36%).

On the other hand, word-of-mouth generates awareness about center sales/events for a significantly higher proportion of large enclosed mall (14%) than neighborhood strip center (5%) shoppers.

Respondents are least likely to receive information about sales/events at their regular center through broadcast media and bill inserts. Television is cited by only 6% of the mall shoppers, 4% of the small center shoppers; radio, 4% and 2%, and bill inserts, 3% and 2%.

The respondents' No. 1 complaint about shopping at their regular center is congestion, specifically inadequate parking facilities or crowds.

Specifically, 20% of neighborhood strip center and 15% of large enclosed mall respondents cited center parking facilities as an unpleasant aspect of their shopping experience. Similarly, crowds appear to be a problem to 16% of the mall shoppers and 14% of the strip center shoppers.

Approximately one-half of large enclosed mall (54%) and neighborhood strip center (51%) shoppers do not find any aspect of shopping at their regular center unpleasant or bothersome.

Zeroing in specifically on those respondents who report having

Average amount of time spent at most frequented center

	Large enclosed malls	Neighborhood strip centers
15 min. or less	1%	3%
More than 15 or 30 min.	4	22
More than 30 to 45 min.	2	8
More than 45 min. to 1 hour	19	29
More than 1 hour to 1 hour, 30 min.	7	11
2 hours	34	22
2 hours, 30 min.	3	—
3 hours	18	3
3 hours, 30 min.	—	—
4 hours	6	—
4 hours 30 min.	—	—
5 hours	2	—
6 hours	2	2

Source: *Chain Store Age Executive*

Travel time to most frequented center

	Large enclosed malls	Neighborhood strip centers
3 min. or less	1%	22%
4-5 min.	9	32
6-10 min.	24	23
11-15 min.	25	8
16-20 min.	21	6
21-25 min.	4	2
26-30 min.	8	2
31-40 min.	4	—
41-50 min.	3	1
More than 50 min.	1	—
Mean:	(17.4)	(8.4)

Source: *Chain Store Age Executive*

shopped at a mall sometime during the past six months, 21% of this group report that there are enclosed parking facilities available at their frequented malls. However, among this group 48% still say that they prefer open parking facilities.

The inclusion of food courts at most malls seems to be clearly paying off with 80% of the mall shoppers reporting having eaten at mall restaurants or fast-food outlets.

Food courts are but one example of the industry's drive to make shopping more convenient and more appealing to the consumer.

Another more current effort is the question of whether or not to have day care facilities in the center. When asked if they would use such a facility, assuming there are young children in the household, 65% of this group say no. No reasons were provided.

However, another convenience feature which appears to be growing in popularity is the use of computerized directories. Although only 32% of mall shoppers report the existence of such directories at the malls they frequent, of this group 75% have already made use of them. For the 25% who haven't, the reason most frequently given is "am familiar with the mall/stores" noted by 62% of this group, followed by "just like to shop around," 27%.

Among those shoppers who visit more than one large mall in a single week, the prime reason, according to 55%, is for greater variety of stores. Second is product availability, say 26%, followed by price, 21%, and convenience, 15%.

Small, neighborhood strip center shoppers also report variety of stores is their major reason for shopping more than one such center in an average week, according to 49%. However, here convenience is also much more important, say 36%, including being closer or closer to where the customer lives. Price is an important

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Shopping frequency at enclosed malls

Once a week	18%
Once every two weeks	23
Once every three weeks	6
Once a month	31
Once every two months	8
Once every three months or less	15

Source: *Chain Store Age Executive*

Shopping frequency at neighborhood strip centers

Once a week	56%
Once every two weeks	16
Once every three weeks	3
Once a month	15
Once every two months	5
Once every three months or less	5

Source: *Chain Store Age Executive*

Shopping frequency at off-price centers

Once a week	16%
Once every two weeks	16
Once every three weeks	4
Once a month	32
Once every two months	14
Once every three months or less	18

Source: *Chain Store Age Executive*

factor for 24%; while product availability is important for 22%.

There is still also a certain body of shoppers who aren't being attracted to malls and/or to strip centers. For the 15% of the survey respondents who haven't shopped at a strip center within the past six months, the reason is most often inconvenience, according to 36%. Twenty-five per cent feel they have "no reason/no need" to visit such a center, while 12% say that their desired products are not available. Prices perceived as being too much higher are a deterrent for 8%.

As for the 7% of respondents who have not shopped at a large, enclosed mall within the past six months, inconvenience is a major deterrent for a whopping 52%. Specifically, 46% say this is because such malls are "too far away from home." "No reason/no need to go there" is a deterrent for 27%. Prices being too high is a turnoff here for only 6%, and 6% also cite "desired products are not available."

Of the primary shoppers of enclosed malls, 67% are employed, up from 55% in the previous study

Of the 1985 survey respondents, 64% of the primary shoppers of large malls are married, as are 71% of the primary shoppers of small neighborhood strip centers. These numbers are up slightly from 61% and 65% in the 1981 survey, reflecting overall changes in the population over the intervening years.

A more significant change is that 67% of these mall shoppers in this year's study are employed, up from 55% in the last study. Again, this is a sign of overall improvement in unemployment numbers since 1981, plus the entry of more and more women into the work force.

Correspondingly, 65% of the strip center primary shoppers are now employed, compared to 60% when the last study was done.

The average household income for the mall shopper is $30,884, up from $25,154 in 1981; for the small center shopper it's $29,382, up from $21,371. Here inflation plus the higher employment figures are seen as the greatest factors producing this increase. ■

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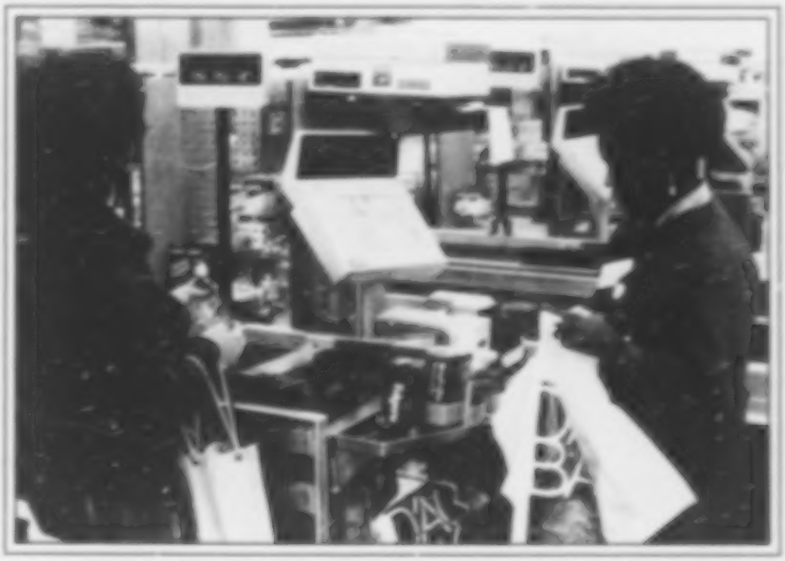
Testing merchandising concepts

Progressive supermarket operators are using scanning data to explore issues beyond mere inventory replenishment

A step ahead of their counterparts in the department and specialty store sectors, progressive supermarket operators are using POS information to go beyond mere inventory replenishment. They're delving into such complex merchandising issues as how the introduction of a new item will affect the overall productivity of a merchandise category.

As a result, new productivity standards are being applied in the supermarket industry, while established standards are undergoing acid tests—giving merchandising execs a fresh perspective on their business.

The long-promised scanning data revolution is here, it seems, but food retailers are still divided on how to use it. Some are just conducting empirical tests, while others are using the data to drive fully integrated shelf-management or item-tracking programs.



***Supermarketers use POS scanning data** for applications such as shelf-space management.*

Most of them, however, are still sitting on the sidelines and cheering—waiting for the dust to settle before they invest in one merchandise information system or another.

Regardless of which option retailers ultimately choose, scanning is the key to the whole revolution. "Scanning tends to make these systems more feasible to operate," says Bill Bishop, president of Willard Bishop Consulting Economists. "Early shelf management systems, for instance, utilized warehouse withdrawal data to determine inventory levels for each store. This information was awkward to use, sometimes difficult to interpret for slow-moving items and, of course, did not include the sales of any items that were delivered directly to the store.

"The only caveat," says Bishop, "is that scanning systems must capture sales figures accurately—but today, more companies are increasing their emphasis on the accuracy of their scanning operations."

Frank Dell, senior partner of Case and Co., a consulting firm in Stamford, Conn., has several other reservations, however. "Scan data is just not as reliable as some people think," says Dell. "There are still misses or errors by the cashier, shrink and damage to throw off the numbers. There are a number of ways an item can come off the shelf and not be recorded at the checkout."

Still and all, scan data is generally considered the cleanest source of product movement information.

"The use of scanning data, no matter what form it takes, will be an increasingly effective tool," says Bill Mihal, corporate sales planning manager of General Foods. Mihal is in charge of the ScanLab program, in which General Foods teamed up with Dick's Supermarkets in Wisconsin to develop a system for organizing scanning data into a usable form for merchandising decisions.

At Dick's, the scan data was used by grocery department managers in all five of its stores. In the peanut butter and jelly section, for instance, an alteration of shelf set—based on ScanLab reports—generated an increase of 6.5% in dollar sales. Unit sales increased 7.7% and gross profit dollars expanded about 13%. Other tests had similar results.

"In fact," says Mihal, "this use of scanning data will be a bigger carrot for retailers than the hard benefits of scanning—shrink reduction, accuracy at the point-of-sale and labor savings. The payback will vary from retailer to retailer, but it will be fast—and probably quite substantial."

The ScanLab system is currently being offered through Food Marketing Institute at a price of $2,000, which, according to Mihal, covers the cost of the software itself as well as installation, training for both user and data processing personnel, operation manuals and a toll-free service number. ScanLab is designed to run on IBM mainframes.

"The applications," says Mihal, "are endless. You can look at your product assortment and see if it's right for the demographics of a particular store. You can track new items and get a read on their success—or lack of it. You can test shelf allocation, using either ScanLab alone or in conjunction with one of the packaged shelf management programs.

"What about advertising and promotion? You can get an early warning as to how well an ad is doing—applying current data to historical trends—and fine-tune your ordering process during the sale week. Down the road, people will be testing pricing, planograms and departmental positioning in the store. All you have to do," he says, "is test in a few stores and then

Scan data can be used to track new items and their success (or lack of it), test shelf space allocation and measure advertising effectiveness.

make projections based on that data."

Of course, certain fundamentals have to be in place before a program like ScanLab can proceed effectively. First, says Mihal, there must be a commitment to apply the necessary resources to the project—to apply whatever time and money is needed, and to use the data when it becomes available.

Second, a retailer "needs to think about implementation within the organization," he says. "There's got to be education and involvement—particularly on the part of upper management. You've got to ask yourself how the data will be used."

Third, there must be an outside resource—a consultant, for instance—to help the retailer overcome daily hurdles and bugs in the system. Since the software must be made to fit with the host of different systems currently in use, it can take some time to work those bugs out.

According to Mihal, there are now five retail and wholesale concerns in various stages of ScanLab start-up. They include: Twin County Grocers and Wakefern Food Corp. in New Jersey; Star Markets in Maine; Fry's Food Stores in the greater Phoenix market; and Fleming Cos. in Alabama.

"ScanLab is still the state of the art for pure organization of scanning data," says Tim Hammonds, senior vp of FMI. "But there are systems that take the process a step farther—programs that handle shelf space allocation, for instance."

In a shelf space management program, says Bill Bishop, scan data is analyzed using a formula similar to the following: A = (FxM) + Q (*see accompanying story*).

A stands for "allocation," or the number of units needed to support sales of a given item. F represents the "stocking factor," or the proportion of sales that takes place between the time an order is written and the next time the order is written. M stands for "average weekly movement"—as tracked at the point-of-sale—and Q equals "purchase quantity"—usually a case pack, unless orders are placed in smaller quantities.

"Without a space management system," says Bishop, "it would be almost impossible for the retailer to guess the best allocation for a given item. For fast-moving items, the tendency is to underallocate—and you can imagine that this would lead to more frequent stock-outs."

Gross margin vs. Direct product profit

	Gross margin	DPP
Baby food	11%	3.41%
Beans and rice	11	3.96
Shortening and oil	11	7.26
Paper products	19	7.22
Cake mix	19	10.07
Jelly and jam	22	16.72
Spices and salt	31	30.38
Soap	15	10.05
Household cleaners	24	17.28
Ice cream	23	6.21
Butter	10	4.60
Frozen vegetables	34	23.12
Frozen fruit	24	17.28
Cigarettes	12	13.20
Dentifrices	31	18.60
Facial tissues	15	—

Source: Case & Co.

Bishop says that the power of scan data analysis was made evident to him during his work with the Pillsbury Scan Share Group—an early experimenter with POS-gathered information. For instance, one retailer involved in the group wanted to test the effectiveness of its major display program. He used scan data to gauge the sales of a gallon bleach product when it was featured in such a display.

The scan data provided an unexpected answer. Whereas it was generally believed that a display would only remain effective for a few weeks at most, sales for the gallon bleach product actually held up for the entire 12-week period of the display.

"During the analysis," says Bishop, "this retailer also became interested in determining the impact of display activity on the entire category. The question here was whether the display activity tended to cannibalize the business of competitors or to expand overall category sales.

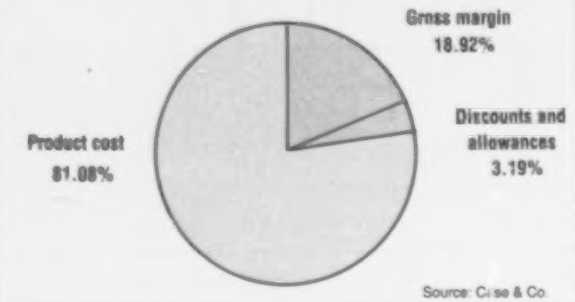
"It was evident from the analysis," says Bishop, "that while there was some shifting within the overall category, total category sales expanded and held for the entire duration of the display program." Bishop notes that this is the way most scanning data experiments are conducted—focusing on an entire category, rather than just on a specific item.

The next issue was the effect of display status on a noncategory leader. "In this instance," says Bishop, "the retailer looked at the impact of displaying a brand that, prior to display, held only fifth place in its category."

The result? "The fifth brand moved up to No. 1 in the 12-week SAMI report and still held third place in a brand ranking one year later—a clear indication of the retailer's ability to have a major impact on what sold."

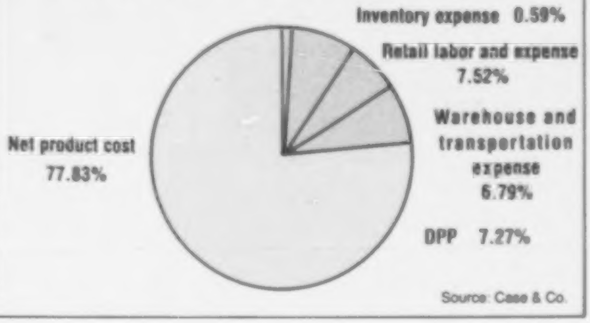
The third question was whether this type of display program would be effective for the introduction of new items. To test this issue, says Bishop, "the retailer used the same long-term

Traditional view: Paper category



Source: Case & Co.

Direct product profit view: Paper category



Source: Case & Co.

display program to introduce a new private label apple juice. In this instance, the national brand was displayed alongside the new private label juice for 15 weeks."

From the time the display went up—in the second week of the analysis—sales for the new item were off to an exceptionally strong start. Even as the displays were pulled down in the 13th and 14th weeks, the sales for both items that were displayed remained strong (compared to the predisplay period).

In the preceding case, says Bishop, scan data was used for analysis—in other words, questions were applied to everyday information. However, says Bishop, other food retailers have used scan data to conduct actual experiments—manipulating variables to see what the effects would be.

One retailer, for instance, enlisted the aid of his supplier to test the impact of display status on soft drink performance—in this case, a new two-liter product. The experiment lasted eight weeks, during which four sets of conditions were tested: shelf display only, no secondary display, regular retail price of $1.09; shelf display plus secondary display, regular price of $1.09; shelf display only, no secondary display, reduced price of 89¢; shelf display plus secondary display, reduced price of 89¢.

The retailer found that secondary displays alone increased case movement by 49%. Reduced price alone increased case movement by 75%—and secondary display together with reduced price increased case movement by 193%.

Dollar sales told a slightly different story. In the no secondary display/reduced price scenario, dollar sales went up only 42%—vs. the 74% increase in case movement—reflecting the lower retail price per unit.

But the second treatment—secondary display, but regular price—turned out to be the one that produced the highest gross profits for the category. As case movement increased by 49%, category gross profit increased by 4%. This translated to an $88-per-week improvement in gross profit dollars.

Promotional pricing and display dramatically increased sales—a whopping 193%—but gross profit dollars actually declined.

One of the most advanced shelf space allocation programs is offered by ABA Groups, Hermosa Beach, Calif. According to Brian Harris, president and ceo, his shelf space management program—dubbed "Apollo"—is designed to run on the IBM personal computer. Data can be downloaded from the mainframe after the scanning numbers are "crunched"—or received directly from an in-store scan controller.

Mihal (l.): "Payback will vary from retailer to retailer." **Dell:** *"DPP is becoming a fixture."*

The Apollo system generates a variety of reports, which provide a detailed evaluation of the current use of space in a category—on both an item-by-item and total category basis.

It automatically allocates space based on a variety of criteria, including: minimum constraint criteria such as number of facings, restocking standards or days-of-supply; balancing of days-of-supply for all products in the category in order to optimize shelf holding power; balancing of share-of-space with share-of-sales (measured in dollars, units, etc.); balancing of share-of-space with share-of-profit, and optimization of return on inventory investment (ROII) per unit of space in the category.

The Apollo system also allocates space in a category using different criteria for different brands, sizes or individual items. For example, space for Coca-Cola can be allocated on the basis of share-of-space to sales, while Pepsi space is allocated on the basis of minimum holding power.

Beyond that, the Apollo model can be used to test "what if" questions. The results of allocating space according to a single criterion can be previewed on-screen, both in report and schematic picture form, before a final space allocation decision is made. When profit is the criterion, the Apollo user can apply direct product profit instead of gross profit. In fact, DPP is becoming the preferred standard for shelf space allocation decision systems.

"DPP is becoming a fixture in retailing," says Dell of Case and Co. As the developer of one of the two foremost DPP models, Dell is naturally one of the method's most vocal proponents. He is now working with FMI to establish standard methodologies for DPP models.

"Direct product profit is the net profit contribution of an item after all allowances are added to the gross margin—and all the handling costs are deducted," says Dell. In Dell's model, allowances include merchandising allowances as well as distribution allowances (freight or backhaul allowances). Handling costs include store-level (retail) direct labor, retail inventory expense, retail operating expense, transportation expense, warehouse direct labor, warehouse inventory expense and warehouse operating expense.

The result is a figure that more accurately reflects the value of an item to the retailer. Comparison with the amount of space allocated to that item affords the retailer a tool with which to fine-tune shelf sets, secondary displays and so on.

Paul Fritzer is the director of grocery merchandising for Hannaford Bros. The Scarborough, Maine-based supermarket operator has had a proprietary DPP system for about five years now. It was designed, he says, to be a retail tool for setting shelves, merchandising sections and item performance tracking.

"It's a tool for our stores to use—to get the people more involved," says Fritzer. "But, of course, we get different results for each store. Transportation costs are a big factor, and since the distance from the warehouse varies from location to location, the DPP will vary."

Where Hannaford's outlets have scanning capabilities (and less than a fourth do), their shelf merchandising system is fueled with scan data. Where scan data is not available, warehouse withdrawals are used.

Scanning information is sent by telephone to Hannaford headquarters, where a proprietary mainframe system—not unlike ScanLab—is organizes the data. Then the firm's DPP system performs the analysis.

"And we've gotten some pretty positive results," says Fritzer. "One revelation was the importance of the cube of an item. We found that an item with a low gross profit and a small cube can be better than one with a high gross profit and a large cube. It refined our thinking about paper products, for instance."

Dell points out that the DPP analysis need not be performed on a mainframe. "The best way," he says, "is to do your numbers crunching on a mainframe and then download to a PC. That way, you don't tie up the mainframe." In fact, DPP programs for PCs are already available.

"The biggest problem with DPP analysis," he says, "is that each retailer has a different way of doing things, and therefore a different set of expenses. Sometimes the component costs are difficult to estimate."

A number of other retailers and wholesalers have already started to make decisions using DPP. Safeway, King Soopers and Shaw's, to name a few, have initiated such programs—but some of these are based on warehouse withdrawal information. Scan data should make these tools even quicker—and more accurate.

The most formidable barrier to the use of all scanning-fed systems, says Hammonds of FMI, is "the feeling that they will make all your decisions for you. But they don't. Obviously, they can't take into account real-world factors—like which items in the store really bring your customers in, or the nature of your relationship with a particular vendor."

"If bread and milk don't have a good DPP, I still wouldn't throw them out of the store," notes Dell.

"All the systems provide," says FMI's Hammonds, "is a measurement of how much a specific deviation [from the system's recommendations] is costing your company. They're just part of the process—a tool, like gross margin computation. At that point," says Hammonds, "the decision is up to the retailer." ■

Computing shelf space allocation

A Randall's Food Market in Houston orders a high-volume grocery item five times a week—but it does almost one-third of its business between the two orders that span the weekend. Therefore, they need about a third of their weekly inventory in that item as safety stock.

Applying the space allocation formula—$A = (F \times M) + Q$—we'll assign 0.35 to the "F" variable, representing the proportion of weekly sales that take place between orders.

The item sells at the rate of 300 per week, so we assign 300 to the "M" or average weekly movement variable.

And since the item is packed 48 to the case, a value of 48 is assigned to the "Q" or purchase quantity variable.

With a simple calculation we find that allocation, or "A," equals $(0.35 \times 300) + 48$ or 153. So Randall's should allocate 153 shelf spaces to this item in order to maintain current volume.

What if the store were limited to one grocery order per week? Then, the equation would be $(1 \times 300) + 48$, calling for an allocation of 348 spaces.

Source: Willard Bishop Consulting Economists

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Chain Store Age EXECUTIVE Volume 61, No. 6/June 1985

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institutions. There are still other ways to hedge on foreign exchange transactions, such as by dealing in currency futures.

The International Monetary Market (IMM), a division of the Chicago Mercantile Exchange, trades these standardized contracts in such denominations as the British pound, Canadian dollar, French franc, Japanese yen, Swiss franc and West German mark.

"We currently do not use futures contracts," Cannon says, "but we're looking at them actively."

As it happens, Woolworth didn't need to hedge much on foreign currency dividends for the last couple of years. It kept its foreign cash offshore—due to the large domestic tax-loss carryforward that resulted from the shutdown of the U.S. Woolco division in 1982.

In that same year, though, the company was able to save nearly $14 million by hedging the proceeds from the sale of its British subsidiary *(see accompanying story)*. And since the Woolco tax shield will be exhausted in 1985, Woolworth has resumed bringing in foreign dividends—and hedging them, if need be.

Unlike Woolworth, many organizations don't believe in covering the income from their foreign divisions or simply feel little need to do so.

Consider K mart, which reported net profits of $9.8 million from its Canadian operations and $20.7 million from its Australian investments (primarily equity income in mass merchant G.J. Coles) for the year ended Jan. 30.

As far as foreign income is concerned, "We don't employ any hedge programs," says Helen C. Lefler, vp and treasurer at K mart. She notes that the contribution of offshore operations is relatively insignificant. Still, the company might take steps to protect that money in the future. "[Assistant treasurer] Leonard [J. Maida] is looking into all of these matters," she says. "I would think that we'll be looking at it."

There are also companies that won't hedge foreign income but will cover foreign assets and liabilities. One way businesses protect the value of their foreign assets, according to Citicorp economist Kevin Logan, is by balancing them with an equivalent amount of liabilities in the same country.

Sears, on the other hand, hedges certain foreign borrowings with forward contracts.

A number of multinationals, as a matter of principle, rarely engage in any form of foreign currency hedging, Logan says. Some don't think it's worth the time and expense since, they assert, currency values balance off in the long run.

The way Logan sees it, hedging is akin to speculation simply because the hedger takes a position on the rise or fall of those currencies. "The hedger is trying to eliminate all risk," he says. "But you're always accepting the risk of one alternative vs. another. With hedging you can secure a result, but you eliminate a possible better result."

Any retailer operating across borders is a risk-taker. Along with that risk, however, comes the chance that a foreign economy will outperform that of the U.S., and that makes doing business abroad just one more brand of hedging. ■

—**Gary Vineberg**

CREDIT MARKETING

Sears looking to Discover credit card consumer market

DISCOVER
0510 7230

No stranger to the workings of plastic, Sears, Roebuck currently has nearly as many charge cardholders as MasterCard *(see accompanying chart)*, with over $13 billion in receivables. In the past year, it added nearly two million new accounts.

Now Sears is primed to launch a full-scale attack to build a credit card business that will come head to head with industry giants MasterCard, Visa and American Express. The key to its success, however, might be how many competitive retailers it manages to persuade to accept the card.

"I suppose if it became important enough as a card, competing retailers would take it after denying that they would," speculates Malcolm Sherman, president of Zayre Stores. "They would end up taking it if it became an important card, if there's enough penetration, even though they hate helping to enrich a competitor. Do I visualize Zayre being the first people to take it? No."

Besides Zayre, at least one other Sears' competitor, J. C. Penney, "is not likely to accept the card," says Ted L. Spurlock, Penney's vp, director of credit and consumer banking services. "The reason being that we have approximately two-thirds of the base they work from already on our card and that doesn't leave us much room for our margin for incremental sales-plus business."

"However," he continues, "Penney is consumer driven and when our consumer wants us to accept something, we usually do it. That's what happened with the bank cards and American Express."

A major enticement for consumers may be that the Sears' Discover Card will enable cardholders to take advantage of the wide range of services that has already been established through the Sears Financial Network.

Sears describes the new general purpose card as a "multifeature family financial services card offering revolving credit, savings instruments, electronic services, insurance and other financial planning services."

Discover will be pilot marketed in Atlanta later this year, with a national rollout scheduled for 1986.

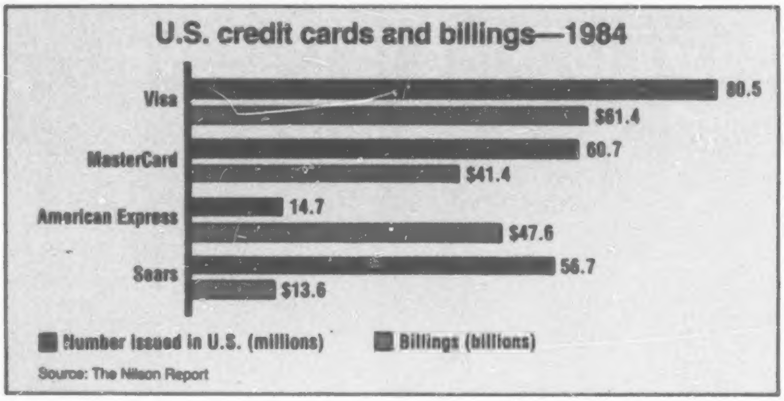
The company is banking on two factors to give it an edge in the already fiercely competitive market: a broad base of consumers, most of whom are already familiar with affiliated Sears financial institutions comprising the Sears Financial Network, and a package of financial services not yet available through any other single card.

Brennan noted that 38% of Sears credit cardholders surveyed last summer indicated they'd use the new Discover Card. Another 29% of non-Sears cardholders also said they'd make use of it.

Like other competing cards, Discover will offer consumers revolving credit, emergency cash, check cashing and lost or stolen card protection.

"But Discover will be more than just another credit card," Brennan proclaimed to analysts. "It will be a true financial services card." This is where the Sears Financial Network comes in handy. (At this writing the SFN players are: Allstate Insurance Group; Dean Witter, a securities brokerage firm; Coldwell Banker, a residential real estate firm; Sears Savings Bank in California, and Greenwood Trust Co. of Delaware, which will issue the card.)

U.S. credit cards and billings—1984



Source: The Nilson Report

For starters, Sears will offer cardholders the opportunity to open a Family Savings Account with tiered interest rates, increasing with account balances. The Greenwood Trust Co. will hold the accounts. Dean Witter will provide financial planning services including a self-directed IRA with no set-up fee.

Also, Sears is planning to provide cash access to Discover Card holders at automated teller machines. "The card will act as a credit instrument and cash withdrawn will be charged to the client's account," Brennan explained. There is also the possibility that the ATM's will eventually provide access to the cardholder's Family Saving Account.

However, said Brennan, "we will not establish a nationwide ATM network. We will have a shared position in some exisiting ATM markets across the country."

Sears has already gotten its feet wet with ATMs this past year. Reportedly, some customers of Dean Witter and Sears Savings Bank in San Diego were issued ATM cards for cash access to SearsNet, the Sears ATM network throughout California. There are now nearly 100 fully operational SearsNet locations.

Finally, cardholders will be offered merchant-related discounts and premiums from Sears and other as-yet-to-be-announced companies.

Besides some of these more tangible benefits, another point in Sears favor that will aid consumer penetration is its target market. "Instead of focusing on narrow income and net worth market segments, we want to better serve middle-class individual households," the Sears president said of the the company's financial services strategy.

The Discover Card is a natural outgrowth of Sears' existing financial services and what it found through consumer research, says Fred Wintzer, an analyst with Alex. Brown & Sons. "Sears research indicated that a significant portion of the population wanted more sophisticated financial services such as banking and brokerage. But they were uncomfortable with the traditional outlets.

"Many consumers in the $25,000 to $40,000 income bracket didn't have money markets and didn't use a broker, but they were aware these services existed and wanted them," he reports. "Traditional banks and brokers are targeting to someone above that consumer." And, most important, Wintzer says, Sears found that a high percentage of these consumers were loyal Sears customers.

Sears' Brennan claims consumers will be drawn to Discover by its ability to help them save and invest

While neither American Express nor MasterCard would comment on Discover, H. Spencer Nilson would. Nilson, publisher of *The Nilson Report*, termed the new card "no industry threat."

It is unlikely to challenge MasterCard, Visa, American Express or Citicorp for dozens of reasons, he says. Among them are Sears' lack of a network to sign on a substantial number of retailers, as well as the lack of an efficient, speedy credit-authorization network that could match that of bank and travel and entertainment cards.

Also, he says, Sears would have to charge merchants under 2% as an incentive to sign on. Consumers would only be attracted if they were charged under $12 annually.

Another option would be for Sears to offer the card free or to charge a transaction fee. All of which, Nilson claims, would cut into card revenues. (Sears has not yet announced merchant and consumer fees.)

And finally, Nilson states, Sears current card base "does not translate into demographic competition for bank and T&E cards [travel and entertainment cards such as American Express, Carte Blanche and Diners Club] since half of their cardholders couldn't qualify for a MasterCard or Visa card if they wanted one and less than 1 in 10 could get a T&E card."

Another stumbling block cited by observers is the reluctance of competing merchants to accept the card.

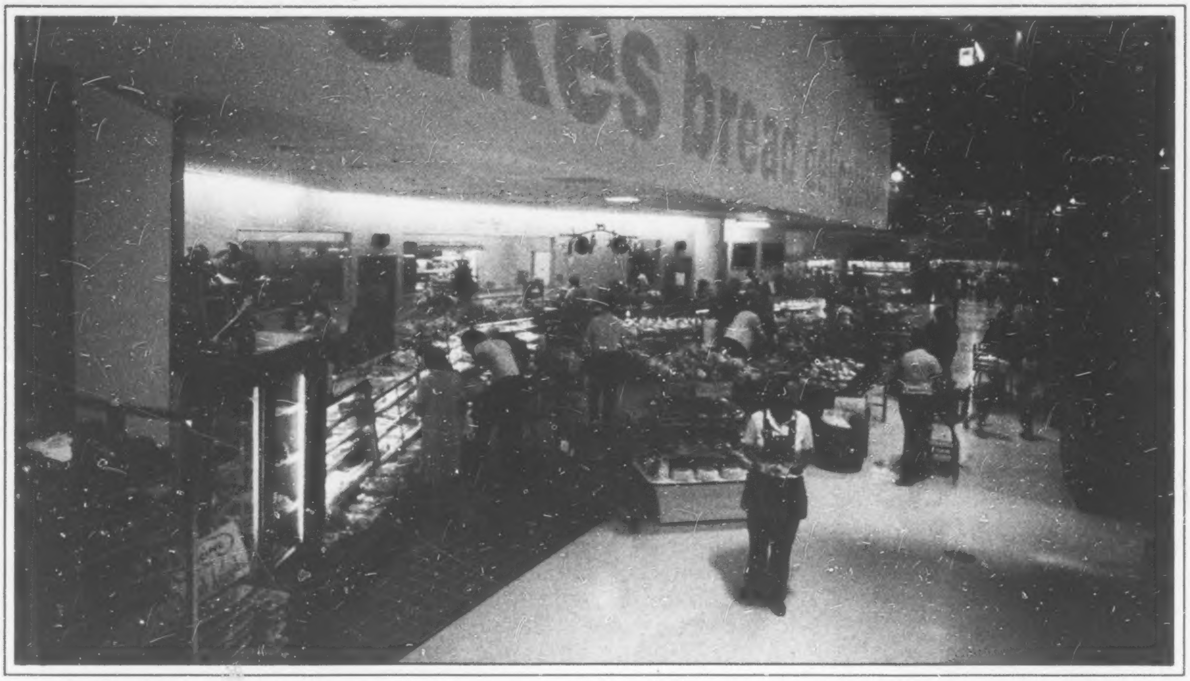
Brennan claims consumers will be drawn to Discover by its ability to help them save and invest as well as spend. Merchants, he maintains, will be attracted by the opportunity for incremental sales, competitive discount rates and various settlement options.

Penney's Spurlock feels that Sears will be successful in enticing "some" retailers, but that perhaps initially the company will be in a better position to sign on members of the travel and entertainment industry. Once these businesses are signed, consumers would find the card more desirable.

In fact, at presstime, American Airlines had announced it would participate in the Atlanta pilot. However, the Dallas-based carrier had not committed to accepting the card once next year's rollout begins. Delta Airlines was reportedly also meeting with Sears' representatives at presstime. TWA, Eastern and United had not yet committed to participation.

Spurlock wouldn't comment on how the success of Discover would influence Penney's own introduction of a general purpose business card. Yet, he did make one observation that could be considered prognostic: "The financial services industry is turning and undoubtedly all of us [Penney, K mart, Montgomery Ward] will be doing something in the financial services arena where there's a card or something like that or some other avenue or vehicle." **—Holly Klokis**

For more information circle 12 on reply card.→



Among warehouse stores surveyed, 75% reported weekly sales per square foot of selling area increased; 50% saw sales per gross square foot climb.

Combos take the lead in performance race

Chain Store Age Executive's supermarket survey shows combination stores to be consistently high yielders

Although superstores are viewed as the supermarket format of the future, combination stores still outperform them on a number of important productivity measurements.

Combos' leading performance is confirmed by the results of a recent survey of supermarket productivity conducted by *Chain Store Age Executive*. As the survey demonstrates they are consistently high performers on such key measures as average weekly sales per square foot of selling area and gross margins. This trend shows no signs of abating in 1985.

In addition to combination stores, the formats measured include conventional stores, superstores and warehouse stores. Operators of multiple formats broke out productivity statistics separately for each.

For purposes of this survey, combo stores are defined as being larger than 30,000 sq. ft. with general merchandise as at least 25% of the merchandise mix; superstores are larger than 30,000 sq. ft. and have expanded food and nonfood sections; conventional stores are smaller than 30,000 sq. ft.; warehouse stores are those with more limited product assortments and are of no specified size.

The average annual sales volume of the companies surveyed is $577.6 million and the average number of store units is 111.

Among all of these formats, indications are that superstores will become the most plentiful. That's despite all the attention that has been focused lately on the super warehouse stores, or megastores, which now appear likely to account for no more than 5% to 7% of all U.S. supermarkets.

Emphasis not just on operations but on format has intensified in recent years as supermarket operators sought not just to reach a diverse customer base, but also to distinguish their operations from others in the marketplace. "You have to do something different to set yourself apart," points out Timothy Murphy, a leading industry consultant with Willard Bishop Consulting Economists, Barrington, Ill.

The growth of superstores is a direct reflection of this trend. Their numerous specialty departments enable such operators to present "something different." Plus, they provide a one-stop shopping destination for today's convenience oriented consumer.

At the same time, these and other operators are coping with the twin dilemma of keeping productivity on an upward trend while also developing an arsenal of new merchandising and design concepts.

Perhaps this dilemma is best illustrated when looking at sales per square foot. This measurement, especially when sales per square foot of selling area is utilized, is one of the most significant indicators when it comes to evaluating overall company performance, according to Murphy.

According to the survey, average weekly sales per square foot of selling area (used by 39% of the survey respondents) were highest for the combination stores [illegible] 1984 at $27.60, followed by warehouse stores at $25.10, superstores at $20.80 and conventional stores at $18.70.

However, this year those of superstores are seen as making the biggest leap, up to $26.50 per square foot. In contrast, those of combination stores

Continued on page 25

FOR MORE INFORMATION CIRCLE 100 ON READER SERVICE CARD ▶

are expected to remain stagnant at $27.60, the same amount expected to be attained by the warehouse stores. Conventional stores see sales climbing to $21.50 per square foot.

Any increase at all in sales per square foot is notable in view of the fact that stores are being built larger and larger. For example, *Chain Store Age Executive's* latest figures show the average new supermarket to be approximately 35,000 sq. ft. in size, while the average size of existing stores is approximately 30,000 sq. ft.

These larger stores are being filled not only with the traditionally high turn items that have made supermarkets successful despite their low profit margins, but also with much slower moving general merchandise.

"As a consequence, maybe sales per square foot will go down," points out Murphy, "but these operators are going into a whole new business. This means that there isn't necessarily anything wrong with their new numbers, only that they are comparing them with past performance overall. They really should be looking at sales on a department level."

Looking specifically at sales per gross square foot, superstores are way out in front, achieving $320.50 per square foot last year. This figure is expected to climb to $340.50 this year. They are followed by combination stores at $280.80 in 1984 and are expected to go to approximately $295.00 this year.

Those of conventional stores are also on the upswing, from $225.40 to $240.40 per square foot. On this measurement, warehouse stores are by far the laggards, at $153.50 per square foot, unchanged from 1983.

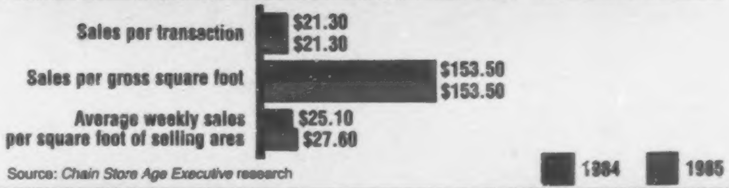
Superstores in particular need the hefty sales to offset a high 10.9% ratio of total store labor costs to sales. Combo stores come in second at approximately 10.6%. In contrast, warehouse stores, with their no-frills format, manage to contain costs to a mere 7.5%. Those at conventionals were still somewhat high at 9.4%.

This year the greatest improvement in containing these costs is being seen at the combination stores and at the warehouse stores. For the combos, this percentage is expected to fall to 9.4%, 6.2% at the warehouse stores. In contrast, superstores see labor costs declining only to 10.4%.

Perhaps because many conventional stores are adding more service departments in an effort to better compete with larger store formats, labor costs as a percentage of sales are expected to climb to 9.8%.

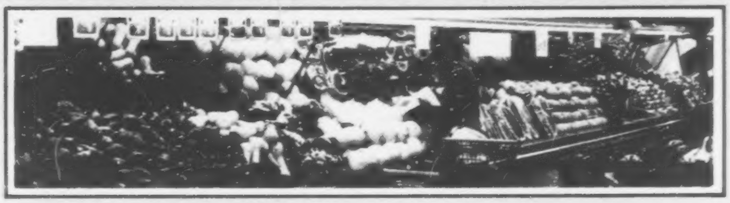
"Labor productivity is probably the No. 1 best measure of productivity," says Murphy. "Labor is the biggest operating expense for the super-

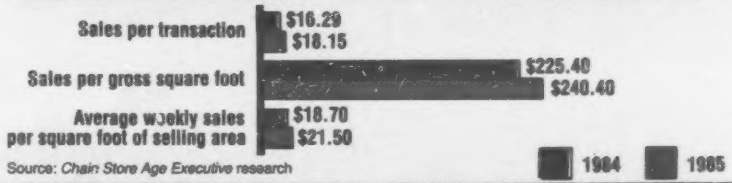
Warehouse stores


Sales per transaction
$21.30
$21.30
Sales per gross square foot
$153.50
$153.50
Average weekly sales per square foot of selling area
$25.10
$27.60
1984
1985

Source: *Chain Store Age Executive research*

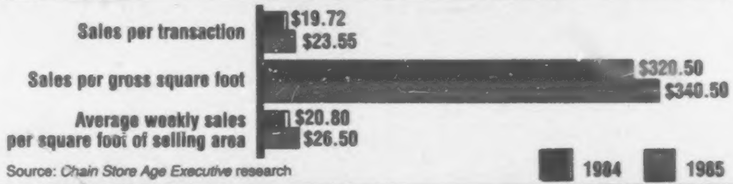
Conventional stores




Sales per transaction
$16.29
$18.15
Sales per gross square foot
$225.40
$240.40
Average weekly sales per square foot of selling area
$18.70
$21.50
1984
1985

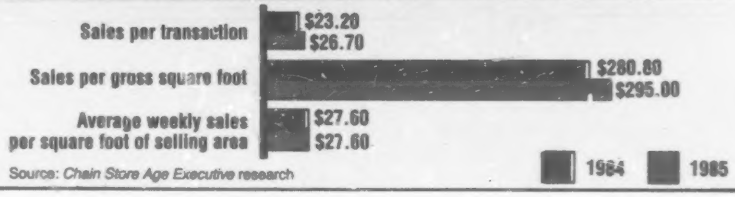
Source: *Chain Store Age Executive research*

Superstores


Sales per transaction
$19.72
$23.55
Sales per gross square foot
$320.50
$340.50
Average weekly sales per square foot of selling area
$20.80
$26.50
1984
1985

Source: *Chain Store Age Executive research*

Combination stores


Sales per transaction
$23.20
$26.70
Sales per gross square foot
$280.80
$295.00
Average weekly sales per square foot of selling area
$27.60
$27.60
1984
1985

Source: *Chain Store Age Executive research*

◀ FOR MORE INFORMATION CIRCLE 100 ON READER SERVICE CARD

Supermarket productivity measurements

	Conventional		Superstores		Combination stores		Warehouse stores	
	1984	1985	1984	1985	1984	1985	1984	1985
Net profit margin	15.2%	16.4%	10.4%	12.1%	10.6%	12.1%	9.4%	9.6%
Gross margin	20.7	21.0	20.3	20.8	21.3	21.6	16.0	19.8
Total store labor costs as % of sales	9.4	9.8	10.9	10.4	10.6	9.4	7.5	6.2

Source: *Chain Store Age Executive research*

market industry and it has to be controlled. How well it is controlled can spell success or failure."

Obviously both combination stores and superstores, with their greater preponderance of specialty service departments, are already battling the labor cost creep.

However, the situation is compounded by the fact that "Often it requires relatively more labor to move slower moving items," observes Murphy.

There's another side to the coin—gross profit margins. Here, again, according to the *Chain Store Age Executive* survey, in 1984 combination stores were the clear winner, at 21.3%, followed by conventional stores at 20.7%. Superstores averaged 20.3% while warehouse stores operated at 16%.

This year, combo stores are again expected to be the gross profit leader, achieving 21.6%. Conventional stores are seen as narrowly hanging onto the No. 2 spot with 21%, but closely followed by superstores at 20.8%. Warehouse stores are expected to achieve the biggest improvement, all the way up to 19.8%.

One reason for the strong showing by the warehouse stores is because the distinctions between these and other formats are blurring, according to a spokesman for the Food Marketing Institute (FMI).

"Warehouse stores came into being during a time of high price inflation, but now that reason for being is disappearing," he points out. "As a result, they are starting to add more service departments, moving more upscale."

At the same time, "other store formats are cutting their prices to meet intense market competition. Therefore, the distinctions between the formats are becoming less clear."

Net incidence of productivity growth 1983 to 1984

	Conventional stores	Superstores	Combination stores	Warehouse stores
Gross margins	65%	59%	38%	71%
Sales per labor hour	50	61	90	49
Sales per transaction	60	82	50	40
Sales per gross square foot	64	80	100	50
Net profit margin	29	33	45	57
Average weekly sales per square foot of selling area	46	29	25	75
Total store labor costs as % of sales	(19)	—	—	22

Source: *Chain Store Age Executive research*

Perhaps a bigger surprise is the strong performance of conventional stores. Many of the industry leaders have virtually abandoned this format in recent years.

The conventional store is, in fact, the leader when it comes to net profit margin, the productivity measurement used by 86% of the survey respondents. (Gross margin is used by 83% as is total store labor costs as a percentage of sales.) Such operators have been successful not only in containing labor costs, but also in controlling other expenses.

According to the *Chain Store Age Executive* survey, the 1984 average net profit margin was 1.5%, well above combination stores' 1.1%, superstores' 1.4% and warehouse stores' slim 0.9%.

During the current year, conventional stores are expecting their net profit margins to climb further, to 1.6%. Both combination stores and superstores expect to achieve a slight improvement, up to 1.2%, while those at warehouse stores are still seen remaining at a modest 1%, up only slightly from last year's figures.

For warehouse stores, the real key to their survival appears to be upping other productivity measures. Operators of this format seem to be having considerable success.

For example, 75% of the operators surveyed report average weekly sales per square foot of selling area increased from 1983 to 1984. 50% saw sales per gross square foot climb, and 49% managed to achieve an increase in sales per labor hour.

As a consequence of these achievements, 71% of this group were able to raise gross margins and 57% were able to increase net profit margins.

With combination and superstores often lowering their prices to meet the competition of warehouse stores and other aggressive operators, it's perhaps no wonder that such formats didn't experience quite the same degree of gross margin and net profit margin increase as did the warehouse stores. Thirty-eight per cent of those operating combination stores reported an increase in 1984 gross margins; 45% reported an increase in net profit margins.

Superstores did somewhat better in terms of gross margins, with 59% of these operators seeing an increase; however, only 33% experienced an increase in net profit margins. They were the big winners, though, in upping sales per transaction, achieved by 82% in 1984, and sales per gross square foot, 80%

Perhaps even more remarkably, 100% of the combination stores saw sales per gross square foot climb over this same period, compared with 80% of the superstore operators, 64% of the conventional stores and 50% of the warehouse stores.

What's clear is that in their effort to appeal to a broadening base of consumers, supermarketers still have one eye clearly focused on the bottom line. Retailers continue to consider productivity measures in selecting their ammunition for the battle of the formats. ■

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with Shopping Center Age
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July 1985

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Retail employers respond to working mothers

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TWENTY DOLLARS A YEAR (USA)

Chain Store Age EXECUTIVE Volume 61, No. 7/July 1985

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The Corner Deli

According to FMI, only 3.4% of supermarkets in its survey sample report not having a deli.

Supermarket operators: Keeping their averages up

Supermarket operators are building their stores bigger and they believe they're building them better—at least when it comes to appealing to myriad consumer tastes.

The average size of the supermarket built during the past 12 months or presently under construction has risen to a whopping 45,640 sq. ft., compared with 39,390 sq. ft. for the average size of existing chain units, according to *Chain Store Age Executive* research. This translates into approximately 35,000 sq. ft. of selling space for the newer stores compared with approximately 30,000 sq. ft. for existing units.

What many of these operators are doing with this excess space is utilizing it to merchandise goods for an increasingly diverse consumer marketplace. They are coming to realize that the same exact items don't necessarily appeal to everyone.

At the same time, they continue to diversify their store formats. Almost all major markets are still characterized by the presence of conventional stores, combination stores, superstores and warehouse stores. However, the mix continues to change.

During 1984, according to a massive survey of food distribution conducted by the Food Marketing Institute (FMI), 4.1% of all supermarkets were opened in 1984, 6.9% were closed and 4.3% were remodeled.

Supermarket

Existing stores:
Mean: 39,390 sq. ft.

Amount of selling space available in typical store:
Mean: 30,054 sq. ft.

Stores opened in 1984-85:
Mean: 45,640 sq. ft.

Amount of selling space available in stores opened in 1984-85:
Mean: 35,006 sq. ft.

Cost to erect a building shell within last 12 months:
Mean: $27.90 per square foot

Source: *Chain Store Age Executive research*

Of those stores closed, 70.7% were conventional stores, continuing the trend of the past several years. However, such closings have decreased markedly from 1981's record high when they accounted for 89.6% of all store closings.

One relative surprise this year is that the superstore category accounted for 23.9% of store closings, a four-year high. Combination stores represent 4.1% of last year's closings, while warehouse store closings fell to only 0.5%, from 1983's high of 3.4%, and limited assortment stores declined to only 0.9% from 1983's 4%.

In terms of new store activity, superstores continue to dominate the industry, representing 47.1% of all construction. However, conventionals appear to be making an extremely strong comeback, accounting for 26.2% of new store construction and taking the No. 2 spot away from combination stores. Combo stores represent 21.8% of all new stores.

Limited assortment stores represent only 0.6%, with warehouse stores accounting for the remaining 4.4% of new construction.

While not part of this survey, another format also increasing in both unit numbers and size are the megastores, or superwarehouse stores. By definition, such stores typically occupy a minimum of 50,000 sq. ft. They range as large as 140,000 sq. ft. Among them are such operations as Cub Food, Edwards, Holiday Plus and even Biggs, the Cincinnati hypermarket.

Although currently growing rather rapidly, megastores are expected to eventually capture no more than 5% to 7% of total supermarket sales. Yet, they have a tremendous impact on competitors in the markets in which they are located.

It's no wonder, then, that supermarket operators of all categories are becoming more experimental in their approach to store design and store format. One result is that many of the distinctions between formats are blurring. Warehouse stores, in particular, are tending to be transformed through almost as many specialty departments as are found in a superstore, for example.

One of the most popular such departments is the deli, according to the FMI's recent store survey. As Allen I. Bildner, president, King's Supermarket, noted at the recent FMI annual convention, "Only 3.4% of supermarkets in FMI's national survey sample report not having a deli."

Another specialty department growing rapidly in popularity is seafood. According to FMI, as of 1984 85.8% of all stores included in its survey now carry fresh seafood, typically stocking about 18 different items. ■

The industry profiles provided in this section include data on the average size of existing stores and new stores in each of six retail classifications. Information is also provided on how chains are diversifying into new store formats, what they are doing with excess space in some instances and less space in others, which types of stores are succeeding and which are failing.

Macy's Aventura Mall: Retailers are spending more for more elegant ceiling and floor materials.

Simplicity and opulence: Department store buzzwords

"With almost no exceptions, the amount of money being spent for remodeling greatly outweighs the amount being spent on construction for new department stores," observes Ken Walker, president, Walker Group/CNI, a New York-based design firm.

"More and more department stores are looking at existing plants and equipment and trying to wring more profitability out of that," he says, "rather than trying to get increased volume from new construction."

This trend to remodeling, born several years ago, comes largely out of the belief that many department store companies have sufficiently saturated their markets. High construction costs and hot competition has made return on investment for new stores far less than in years past.

Today, chains are plowing capital expenditures into remodeling stores in order to retain and broaden market share. They are seeking to hold on to their traditional, loyal customers as well as capture the more affluent, though fickle, Baby Boomer.

At the same time, "department store retailers are spending a great deal of time analyzing space because of the cost of space and the profit picture," points out L. Richard Roussel, senior vp-store planning and design for D. H. Holmes, New Orleans. "They are having to cut departments."

They are eliminating lower gross margins departments, like piece goods, hard goods, appliances and, in some cases, furniture. Higher profit men's and women's ready-to-wear, cosmetics and fashion accessories are being given more space in prominent areas.

"Consequently, many stores have had to reduce selling area. Some stores can allocate the extra space to ready-to-wear, but other downtown stores, where business has fallen off, are retrenching and making spaces smaller," states Edward Pfau, vp, Retail Planning Associates, Columbus, Ohio.

"It would be difficult for huge stores to afford things like marble and mirrors," currently popular materials for remodels, says Pfau. It is these materials that form the backbone of the new look, a look Pfau calls "simplicity and opulence."

"Conventional decor, which sometimes was decoratively done, has mellowed down to simpler planes, where retailers can do better merchandising without competing with contrasting planes," says Pfau.

Despite the simplicity, retailers are spending more for more elegant materials for the two main planes: floors and ceilings. "Hard aisles are everywhere," Walker reports. "Marble is becoming the linoleum of the 80's."

Ceilings are now being given a higher priority than in years past. New materials with textures and colors, and smaller, 2x2 panels are replacing the old 2x4 lay-in tiles. Where retailers don't want to rip out an entire ceiling, the tiles are being painted an off-white or pastel shade to give a more cohesive look.

Another trend Walker cites is the tendency of chains to give all their stores a uniform look, or, as he calls it, "a corporatewide signature."

"Rather than chains building each store in a unique manner, more and more are looking to do similar things chainwide," he states. Individual departments in one store of the chain will look the same as those departments in every other store.

This makes things easier from a management standpoint, he says. The presentation and fixturing becomes standardized and it's much simpler for a chain to control the look of its stores.

"We look at it with a bit of trepidation," he says. "I think it's valid, but you have to be careful that you don't get everything looking so homogenous that it becomes bland. There's a problem of losing some spark. But done with a good eye and a good hand it can work."

Another trend is for stores to require a focal point, or the central core, usually on the main floor. While popular, it is a trend Pfau is critical of. "I'd rather distribute my funds throughout the total floor and do more 'pockets of interest' and highlights around the store . . . when you spend that kind of money there, the rest of the store starts to fall away flat.

"When you walk into a civic building or a religious institution, you can see the justification for a great architectural expression in the middle of the building because what else have they got? But," he continues, "does a department store have to put that much trust into one architectural feature when they have so many other exciting things going on?" ■

Department
Existing stores: Mean: 138,920 sq. ft.
Amount of selling space available in typical store: Mean: 111,882 sq. ft.
Stores opened in 1984-85: Mean: 114,888 sq. ft.
Amount of selling space available in stores opened in 1984-85: Mean: 94,230 sq. ft.
Cost to erect a building shell within last 12 months: Mean: $32.90 per square foot
Source: *Chain Store Age Executive research*

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Store size and market share take giant steps forward

In a home center industry marked by consolidation, expansion and the growing prominence of warehouse operations, there's a trend toward bigness.

That certainly applies to market share. According to *National Home Center News (NHCN)*, the industry's 10 leading chains produced revenues of nearly $8.75 billion in 1984—about 20% more than they did during the year before. Their share of total retail lumber, building materials and hardware dealers' sales rose to 14.7% in 1984 from 14.2% in 1983.

Among the more notable recent transactions: Home Depot bought Bowater Home Centers of Dallas for $38 million; Service Merchandise, which acquired the Mr. HOW warehouse chain in 1983, paid $18 million for five Forest City warehouse units in Chicago, and industry leader Lowe's spent $50 million for 27 Sunbelt Boise Cascade outlets.

THE HOME DEPOT
ATLANTA'S DO-IT-YOURSELF WAREHOUSE

***Home Depot expects to open** 20 or more stores in 1985; average size will be 85,000 sq. ft.*

Perhaps the most significant deal was K mart's $90 million acquisition of San Antonio-based Home Centers of America. Since renamed Builder's Square, the growing chain now has the resources behind it to carve out a sizable chunk of the warehouse market.

Indeed, the home center industry owes much of its expansion to the burgeoning warehouse sector. By *NHCN*'s count, 19 chains operated 129 warehouse outlets at year-end 1984, up from only 11 chains operating 45 such units at the end of the previous year. Furthermore, K mart, Home Depot and Mr. HOW alone accounted for some 42% of the new warehouse outlets opened in 1984.

And while the industry's dominant players get larger, so do the home centers themselves.

Among chains surveyed by *Chain Store Age Executive*, the average size of home center outlets opened within the prior year or under construction was 34,350 sq. ft., as compared with 26,410 sq. ft. for all units. This trend appears to be driven, at least in part, by the large scale expansion of the warehouse concept.

"Home Depot has hung in there with 70,000- to 80,000-sq.-ft. stores and we're now looking toward 100,000 sq. ft.," says John S. Romberger, director of construction and store planning at the Atlanta-based

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firm. He says Home Depot expects to open 20 or more stores in 1985, of which the average size will be 85,000 sq. ft. Two 100,000-sq.-ft. units are planned for 1986.

More conventional home center stores seem to be getting bigger too, possibly in response to competition from the warehouses.

"Our current prototype is a 37,500-sq.-ft. building, of which 30,000 sq. ft. is selling space, and a full-line lumberyard with 4.5 acres. In the past the average store was 30,000 sq. ft. with probably 23,000 sq. ft. of selling space," says Brad Bright, director of merchandising at Payless Cashways, Kansas City. The reason for the size increase, he says, is partly to bring certain yard items indoors and partly to house broader assortments of product lines that are usually kept inside the stores.

Operators like Payless Cashways and Lowe's, of North Wilkesboro, N.C., have resorted to store design as ways to differentiate themselves from each other and the warehouse concept—which has been lightheartedly summarized as "stack 'em high, price 'em low and watch 'em go."

Home Center
Existing stores: **Mean: 26,410 sq. ft.**
Amount of selling space available in typical store: **Mean: 21,207 sq. ft.**
Stores opened in 1984-85: **Mean: 34,350 sq. ft.**
Amount of selling space available in stores opened in 1984-85: **Mean: 28,373 sq. ft.**
Cost to erect a building shell within last 12 months: **Mean: $26.50 per square foot**
Source: *Chain Store Age Executive* research

"The home center industry hasn't really been deeply into the issues of good store planning and design. [The home center concept] started as a building that's an adjunct to a lumberyard," Bright says. "It's only been in the past couple of years that [the] industry has gotten competitive and people are looking at designs."

The recent emphasis on design—which, Bright notes, "is still in its infancy"—is linked somewhat to the better grade of merchandise carried by most home centers. "You don't need a lot of design to sell a $40, B-grade toilet," he says. "The industry's kind of gone from selling basic commodities to selling high-end goods." Better store design has also been considered a way to compete with the warehouses on a nonprice basis.

Bright lauded Lowe's for being one of the first and best among nonwarehouse home center chains when it comes to serious store design. "They treat the merchandise less like commodities than other people in the industry," he says.

Lowe's, which has led the home center field in total sales since 1982, had volume of approximately $1.69 billion in 1984. It ended 1984 with 248 stores and a total of 270 is projected for year-end 1985; the stores average out at about 12,000 sq. ft. in size.

For its part, Payless took a serious stab at design just a few years ago. "We've put in a new interior decor package, came in with modern earthtones, new interior signage; we've taken a hard look at specific displays," Bright says.

He adds that Payless is probably going to introduce a new prototype this winter. ■

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SPECIALTY STORE PROFILE

The Limited, Dylex grab more of diversified apparel market

Two retail giants—one domestic, one foreign—have become ever more prominent in the American apparel specialty store field, a sector that's also characterized by shrinking store sites and a bevy of niche concepts featuring European-influenced decor.

The Limited, stymied in its attempt to purchase Carter Hawley Hale Stores last year, took the acquisition route once more and bought 800-unit Lerner Stores from Rapid-American for $260 million, plus the assumption of $40 million in debt.

While many observers view Columbus, Ohio-based Limited's move as a foray into the women's budget apparel market, they haven't ignored the deal's real estate angle. Knowledgeable industry sources predict that The Limited—which is growing via massive internal expansion as well as acquisition (*Chain Store Age Executive*, March 1985)—will subdivide larger Lerner units to make room for other Limited operations.

Since the typical Lerner location reportedly is 8,000-9,000 sq. ft., with some mall locations as large as 13,000 sq. ft. and 60 ft. wide in front, The Limited could increase productivity by squeezing in such niche units as Victoria's Secret and Limited Express. Charles Hinson, Limited's vp-store planning, could not be reached for comment on the subject.

Meanwhile Dylex, Canada's dominant specialty store retailer, has stepped up its presence on this side of the border. BR Investors, a group formed by Toronto-based Dylex last year to take 700-unit Brooks Fashion Stores private for $370 million, paid nearly $49 million in cash to buy the ailing 614-store Foxmoor women's apparel chain from Melville.

All the while Melville and others have been starting up narrowly targeted specialty apparel concepts.

"It seems that every one of them is establishing chains that appeal to different parts of the market," says Ken Nisch, an associate with the Berkley, Mich., design firm, Jon Greenberg & Associates. "They're trying to take a [mall] customer through the entire spectrum, trying to appeal to all age groups. They keep cutting up the market."

In step with this trend, apparel specialty stores appear to be getting smaller. Among the apparel specialty chains surveyed by *Chain Store Age Executive*, the average size of units opened within the past year or currently under construction was 15,510 sq. ft., whereas the average size of all chain units was 19,910 sq. ft. Not surprisingly, the apparel chains devoted a greater portion of their total square footage—81.9%—to selling space than the other five chain-types surveyed.

The target-marketing of several new apparel concepts is reflected in their store design.

"Stores almost have to be a magazine cover," Nisch says. "You have to know exactly what the store stands

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for." In order to make a stronger visual statement, he says, "now there's more simplicity. Not 'simple' meaning 'boring,' but not overly complex."

Nisch described a recent design for Winkelman Stores as "a very simple white on white on white type of statement with most of the effects of the store being done with light levels . . . It seems like it's more in the direction of a pleasant, appealing room than creating another type of environment."

He says the chains are developing a tier of high-end apparel operations that, to mall landlords' delight, are designed to draw affluent, even "anti-shopping center," fashion customers to the centers. Advanced, European-influenced store design is a trait of some of these operations.

Examples of this are Merry-Go-Round's Cignal and Melville's Free Fall stores, both of which carry upscale fashion ready-to-wear for young, prosperous men and women.

At Cignal, "The target market is the 20- to 40-year-old affluent professional, someone who has the money to spend and wants to look nice after hours," says Merry-Go-Round marketing director Gina Adams. Two Cignal stores are already in operation on the East Coast, with a total of 10 expected to open during the current fiscal year. Merry-Go-Round's real estate philosophy for Cignal is to select prime locations of about 2,000 sq. ft. in markets offering a large, affluent professional population.

Specialty

Existing stores:
Mean: 19,190 sq. ft.

Amount of selling space available in typical store:
Mean: 15,717 sq. ft.

Stores opened in 1984-85:
Mean: 15,510 sq. ft.

Amount of selling space available in stores opened in 1984-85:
Mean: 12,718 sq. ft.

Cost to erect a building shell within last 12 months:
Mean: $32.70 per square foot

Source: *Chain Store Age Executive* research

In terms of design, the stores feature pale gray coloring and ash wood fixtures and flooring.

"It's all done in very, very soft colors, which makes the store open up. There's nothing heavy in the store. The ash wood is very light. It makes the store look much larger than it really is," says Marvin Rice, vp-store design and construction at Towson, Md.-based Merry-Go-Round.

He points out that 90% of the lighting is done with low voltage fixtures. "I think the lighting is tremendous in this store," he says. "It accents with a particular element of light directly on the display and gives it tremendous illumination."

Melville's Free Fall, similar to Cignal in the market it hopes to attract, features such unusual architectural details as doric columns, a chain-link ceiling and a pastel oak floor.

"We like to consider it surrealistic," says a Melville spokesman. One of its surrealistic items is canvas fitting rooms with solid doors—a reversal of the traditional design. "It's very flexible," she adds. "We have movable walls that enable us to create little shops."

Melville, which operates two Free Fall units in New Jersey under its Chess King division, plans to have five open by the end of the current fiscal year. ■

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Gemco's prototype in Rowland Heights, Calif., uses elements of the new design "vocabulary."

Chains respond to demands for upscale environment

"Many discounters are, of necessity, going upscale. What's happened here is that television has taught people that they don't have to shop in an unattractive environment," states Harmon Miller, president of Miller/Zell, an Atlanta-based design firm.

Given the redundancy of merchandise carried by discount stores, a consumer's decision about where to shop hinges more and more on shopping environment. Unlike department stores, where the primary motive for remodeling and upscaling is profit, followed by competition, for discount stores it's the other way around. These stores not only compete against one another, they also come head-to-head against membership warehouses, off pricers and department store promotional merchandise.

As a result, a growing number of discounters are allocating funds to upgrade from the traditional, spartanly furnished, boxlike units. "A discount store such as ours is evolving because the customer is more attuned, more educated. She's more aware of what's going on," says William Yonke, director of store planning and visual merchandising for S. E. Nichols, a chain currently undergoing a remodeling (*Chain Store Age Executive*, March 1985).

"Consumers are more attuned to trends, price and the fact that they don't have to shop in dirty stores," Yonke says, voicing his agreement with Miller. "And discounters are notoriously filthy stores. For discounters to continue their old ways, they're going to go out of business very quickly. Customers want to see value for their dollar and a nice shopping environment."

Discount

Existing stores:
Mean: 71,720 sq. ft.

Amount of selling space available in typical store:
Mean: 57,232 sq. ft.

Stores opened in 1984-85:
Mean: 58,390 sq. ft.

Amount of selling space available in stores opened in 1984-85:
Mean: 46,537 sq. ft.

Cost to erect a building shell within last 12 months:
Mean: $25.20 per square foot

Source: *Chain Store Age Executive* research

It is this blending of value and the improvement of the shopping experience that discounters are striving for. While the terms "upgrading" and "upscaling," are bandied about, discount store planners are quick to point out that those terms don't accurately convey what's going on.

"Its not so much upgrading. That's not the right word," says Ken Walker, president, Walker Group/CNI, a New York-based design firm. "You don't want to upgrade. You want to be a discounter not a department store and there's no reason to change what you are."

While the aim of typical discount store remodeling sounds similar to the aim of a department store remodeling, the end result is different. Both consist of improving circulation patterns, graphics, merchandise presentation and lighting. "But I don't think the discounters are learning these tricks from the department stores," Walker claims. "I think they're coming up with their own vocabulary. They're refining details, making stores graphically better and softening their image somewhat."

Pointing out the differences between a department store's and a discount store's treatment of the same merchandise, Yonke cites a housewares department. "A typical [department store] housewares department has a mannequin dressed in an apron with hanging pots and pans and flowers, forming a vignette. It really doesn't say what the department has other than 'pretties.'"

A discounter would tend to do the same department with a graphic approach to brand names and products in use, he says. "I don't see discounters just putting up a display" or they're close to becoming department stores.

While both retail classifications are giving more attention to ceilings, discounters are tending to merely paint them, leaving the one-level, 2x4 lay-in tiles. Strip lighting is still the most economical and therefore commonly used, says Yonke, but now the strips may be in recess troughs rather than exposed. "I don't think you'll see a discounter doing a renovation or a powder puff and pulling out his existing lighting," he states.

Track lighting, so common in today's department store, could never become a reality in discount stores because there's no one employed to maintain it, according to Yonke. Once a maintenance person changes a bulb, a professional would be required to redirect the beam.

Another area being refined is flooring. The traditional one-surface floor will soon be a thing of the past. Race track aisles are replacing the symmetric grid pattern and with them come two-surface floors. Particularly popular is a combination of tiles and carpeting, and, with the typical discount store mentality, carpeting is chosen for its wearability.

It is these sorts of improvements that set the successful chains off from the rest, say store planners. "There are very few chains that aren't doing this that are still managing to stay in business," Miller points out. ■

Many store planners indicate a general feeling of satisfaction with the way they look today; they respond to competition by diversifying.

Drug stores may be content, but are the customers?

Unlike other retail segments, the drug store industry has yet to undergo a design transformation. Ceiling, lighting and flooring materials, as well as traffic patterns, are nearly carbon copies of their decade-old counterparts.

While department and discount chains experiment with upscaling their designs, many drug store retailers indicate they're quite comfortable with the way they look today. Calls to drug store store planners reveal a general feeling of satisfaction with their ability to meet customer expectations.

"We're up to par with what we like," says one planner when questioned how his industry's designs stack up against other retailing segments. His assessment is common of others. "We feel that what we have is what we desire. Jon Greenburg [an independent store designer] wouldn't say so but we're satisfied."

This same store planner also doesn't feel the average drug store is likely to change much in the coming years. "I think five years from now when you look at a drug store, it will pretty much look the same as it does today."

Unfortunately, this reluctance to change is putting drug stores at a competitive disadvantage, claims one outspoken drug store planner. Competition, notes James Cline, director of store planning for Ribordy Drugs, is coming from many other types of stores—other drug stores, discounters, deep discount drug stores, grocery stores, warehouses.

And, "even the bargain basement retailer" has discovered the importance of design. Drug stores, on the other hand, have either not recognized it or have chosen to ignore it because they haven't felt it was necessary.

"The [traditional] drug store is probably patterned after the first generation of supermarkets of the 1950's and 1960's," he says. "I don't think we've changed too much since then . . . I think we'll find out the importance of design as competition from other types of stores gets greater."

Up until now, Cline notes, drug stores have been responding to competition by diversifying—opening deep discount drug stores, auto parts stores and stationery stores. The upscaling of drug chains, however, has been slow in coming.

Drug
Existing stores: **Mean: 11,020 sq. ft.**
Amount of selling space available in typical store: **Mean: 8,915 sq. ft.**
Stores opened in 1984-85: **Mean: 12,690 sq. ft.**
Amount of selling space available in stores opened in 1984-85: **Mean: 10,330 sq. ft.**
Cost to erect a building shell within last 12 months: **Mean: $29.00 per square foot**
Source: *Chain Store Age Executive research*

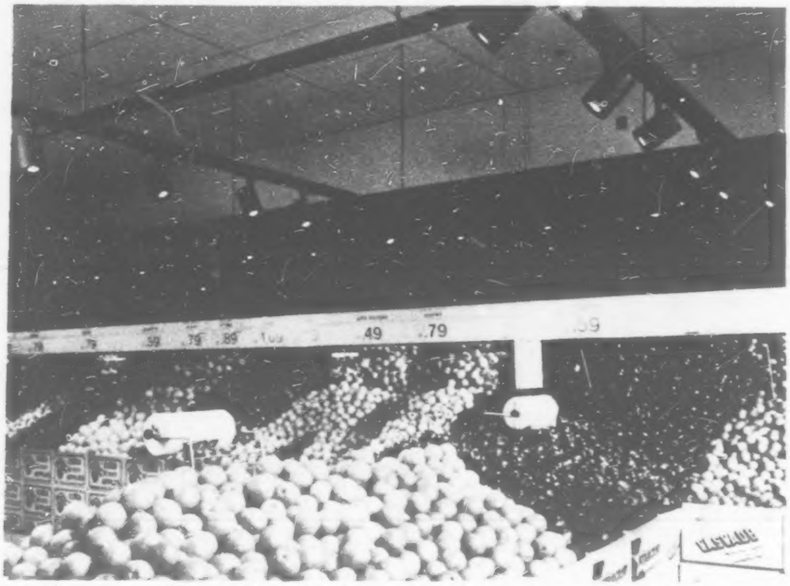
Contrary to his design peers, Cline expects the drug industry will be forced to begin reformatting its stores. Competitive pressures, the need to turn merchandise more frequently, to increase the average sale and keep customers in the stores longer, will all become factors to be addressed in the near future.

At that point, he says, we can expect to start seeing some design elements already in use by other retailers. Carpeting, for example, may find its way back into drug stores (which Ribordy has already added).

"As the major drug chains have phased out carpeting, the rest of the world has found it," he observes. "It's become a rule rather than an exception. Carpet tiles will be something to watch because they can be used to upscale, while still allowing you to control the maintenance problems."

Lighting is likely to be upgraded, Cline envisions, when manufacturers can perfect the color rendition of newer, economical lighting systems. It will enable stores to achieve a fashion image while keeping energy costs under control. The use of color will become more prevalent as will more innovative presentation techniques.

Finally, look for drug stores to start adopting more sophisticated aisle patterns as retailers try to get away from row after row of parallel fixtures—fixtures that are likely to start looking more like a department store's and less like a supermarket's. ■



Installation of new lamps at Dominick's Finer Foods enhanced the appeal of produce.

Bright ideas in design bolster bottom line for supermarkets

This year supermarkets may well be taking the lead in design innovation. They are looking to design to create an image and to reach out to various consumer segments. Most important, they are hoping that design innovation will bolster the bottom line.

Therefore, it's logical that in making myriad design choices, the most important consideration is presenting the merchandise in the most advantageous and alluring manner possible. That's where lighting comes into play.

Certainly such other retail classifications as department stores and specialty stores are well aware of the difference the right lighting choices can make in merchandising their products. Manufacturers such as General Electric, GTE Sylvania, North American Philips and Miroflector are bringing out products catering to these needs.

The three major roles of lighting in merchandising certainly haven't been forgotten: making sure there is sufficient lighting for close appraisal of the merchandise, using light to attract the customers and, perhaps most important of all, creating the desired store atmosphere.

The last consideration was particularly important to Dominick's Finer Foods, the Chicago-based chain where the strategy concentrates on selling food and related items with style—and at a palatable price point. Therefore, when deciding what lighting to use for major remodeling projects and new store construction, involving some 19 sites, the chain had two considerations in mind.

Obviously, the merchandise has to be seen to be sold—with lighting particularly important to the selling of Dominick's extensive produce selection. Second, because Dominick's faces fierce competition and therefore the need to keep its own prices down, dollar saving is also a critical factor.

Charged with making a lighting recommendation of this magnitude, Charles H. (Charlie) Burgess, Dominick's electrical engineer made a careful study of a variety of lighting catalogs, finally choosing fixtures from Halo Lighting, a division of McGraw-Edison.

Among the reasons for his selection was the unusual type of illumination supplied by these fixtures, designed for Halo's Power-Trac lighting system. They give off a white light with precise color rendition (a vital consideration in all types of in-store lighting applications).

These lamps have built-in reflectors with a special dichroic coating. This means that all visible light is directed forward with all heat sent out through the back and sides. For added protection, there is a front borosilicate glass lens. Lamp life is as long as 5,000 hours.

Before installation of these lamps took place Burgess decided to experi-

Cost per square foot for interior lighting

	Total	Discount	Drug	Supermarket	Department	Home Center	Apparel Specialty
(Bases)	(180)*	(30)*	(30)*	(30)*	(30)*	(30)*	(30)*
	%	%	%	%	%	%	%
Less than $0.10	3	—	—	7	7	—	7
$0.10-$0.14	3	—	3	3	7	3	—
$0.15-$0.25	4	7	10	7	—	3	—
$0.26-$0.50	17	30	13	10	10	23	13
$0.51-$0.75	7	10	3	13	3	10	3
$0.76-$1.00	12	17	20	3	7	13	10
$1.01-$2.00	22	23	33	23	27	13	13
$2.00 +	20	3	13	17	27	13	47
Contracted out to outside service/ handled by mail	1	—	—	3	—	—	—
Don't know/ no answer	10	7	3	13	10	20	7
Refused	1	3	—	—	3	—	—
(MEAN)	($1.20)	($0.86)	($1.14)	($1.13)	($1.38)	($1.02)	($1.64)

*Adds to more than 100% due to rounding

Source: *Chain Store Age Executive* research

Information provided in the physical support systems section of this Census Issue examines the newest materials and developments of equipment used in all categories of retail stores. It also compares costs and lifespans of the equipment and materials. These are broken out by relevant retail categories.

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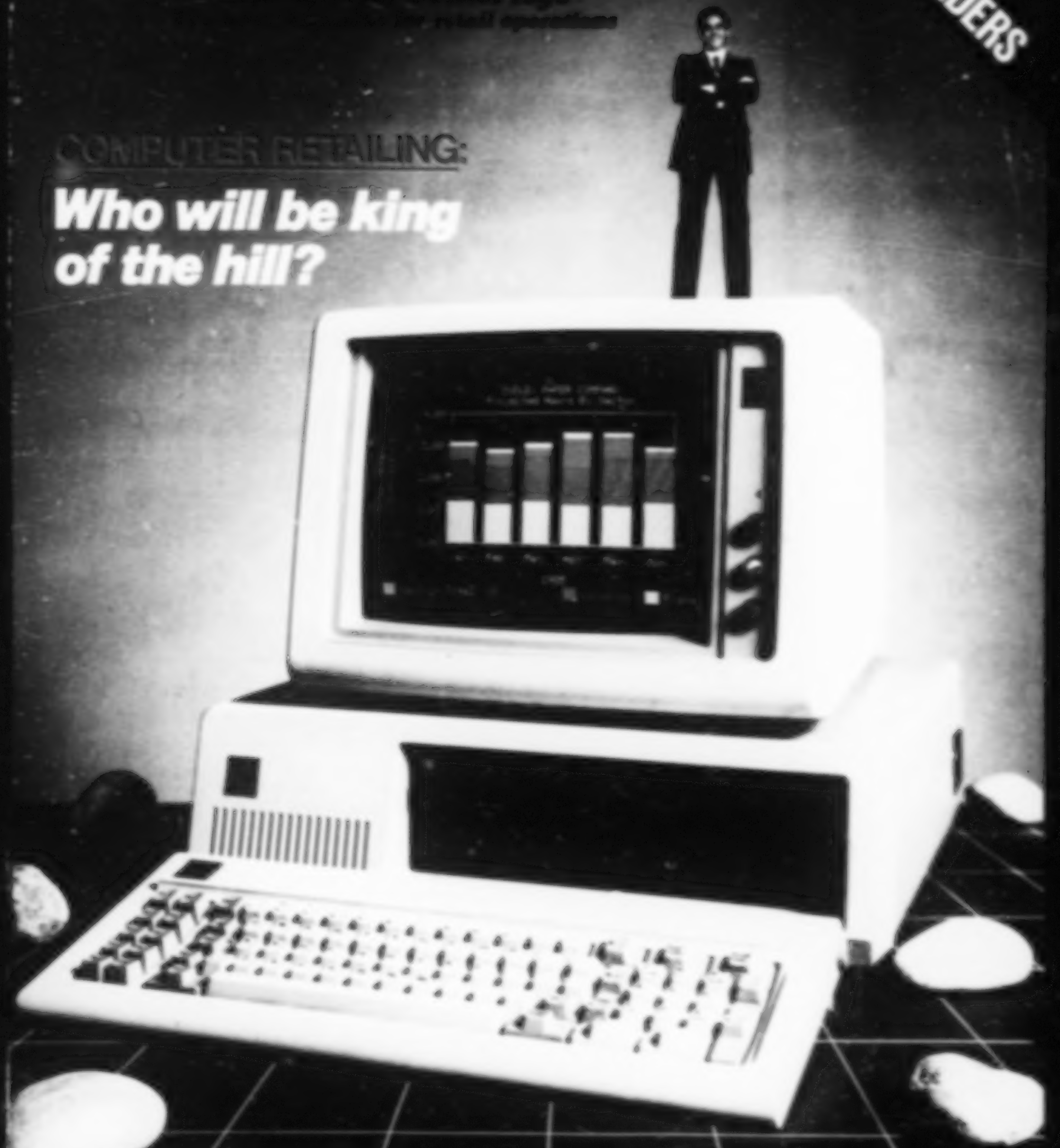
1984 BIG BUILDERS

COMPUTER RETAILING:

Who will be king of the hill?



TWENTY DOLLARS A YEAR (USA)

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Chain Store Age
EXECUTIVE November 1934

Denver-based Pace Membership Warehouse carries a complete line of hard goods, including tires and automotive accessories.

MARKETING

Membership retailing trend taking off

Combination wholesale/retail general merchandise market may reach $20 billion in five years

If imitation is the sincerest form of flattery then no business on earth has ever blushed like the Price Club of California.

Certainly in retailing, there has never been such a proliferation of clones in such a short space of time. The Price Club opened its first unit in 1976 and it has already grown to more than a dozen warehouse stores. Annual sales—in excess of $1 billion—represent the lion's share of the $1.5 billion that warehouse stores are now generating on a national basis.

Experts agree that this combination wholesale/retail general merchandise market will expand to at least a $20 billion purse in five years. It could be much more.

Currently, *Chain Store Age Executive* has identified 13 major chains with a total of 73 outlets *(see chart)*.

When will market saturation occur—and who will prosper after it does—are questions being asked for the first time since these warehouses opened. It has taken eight years for membership retailers to face direct competition in markets such as Seattle, Salt Lake City and Chicago. An industry shakeout is said to be about two years away but hints of more imminent closings are in the air.

Costco and Price Savers both operate wholesale clubs in Salt Lake City. James Sinegal, president of Costco, points out that his chain has competition in Tacoma as well as Salt Lake City, but admits that there have been problems in Salt Lake—where several industry observers say Costco will be forced to close.

Tom Grimm, president of Price Savers Wholesale Club, says, "We are extremely pleased with the success we've experienced in Salt Lake; we couldn't be more pleased."

While warehouses touched every segment of retailing in the markets they entered, the affect on local competition was slight, according to Skip Helm, vp-William Blair. He points out that the membership warehouse operators produced "minimal competitive reaction. They take about 2% of the GAF market."

Helm maintains that "Wholesale is the key to this business, and most of the operators are still coming at this with a retail mentality."

Analysts, industry observers and membership warehouse operators agree that in order to break even in this business, combined annual sales of $25 million to $30 million are necessary. What constitutes an acceptable return on investment is an open question. While the superachievers such as Price Club and Sam's Wholesale Club have racked up annual per-unit sales of $50 million, it may not be mandatory for operations in every market to achieve at that level in the first year.

Although these membership wholesale/retail outlets typically operate on a 10% margin and undersell goods duplicated at discount stores,

Membership clubs

Company	Current locations	Proposed locations	Membership policy	
			Wholesale	Retail
B.J.'s Wholesale Club (Zayre)	[illegible], Fla. Medford, Mass. Johnston, R.I.	Hartford, Conn.	$25 annual fee—up to 2 additional memberships $10 each	5% markup
Club Wholesale (Elixir)	Boise, Idaho Las Vegas, Nev.	2 locations	$25 annual fee	5% markup
Costco	Anchorage, Alaska Clearwater, Fla. Fort Lauderdale Tampa Bay West Palm Beach Portland, Ore. Seattle (3) Spokane Tacoma Salt Lake City	Honolulu—10-12 units	$25 annual fee	5% markup
Metro Cash & Carry of Illinois	Chicago (3)	No expansion plans	no fee	5% markup
Money's Worth	Greensboro, N.C.	1 in North Carolina	$25 annual fee	5% markup
Pace	Denver (2) Colorado Springs Tampa/St. Petersburg	Denver Tampa/St. Petersburg (2) Jacksonville Atlanta (3) Augusta Des Moines Omaha Greensboro, N.C. Raleigh Chattanooga Knoxville	$25 annual fee	5% markup
Price Club	Phoenix Mesa, Ariz. Tucson Los Angeles (6) Orange County, Calif. Sacramento (2) San Diego (4) San Francisco (2) Norfolk, Va. Richmond	Albuquerque	$25 annual fee	$15 fee + 5% markup
Price Savers Wholesale Club	Anchorage, Alaska Salt Lake City Seattle Tacoma	Honolulu	$25 annual fee	5% markup
Sam's Wholesale Club	Birmingham, Ala. Jacksonville, Fla. Kansas City, Mo. St. Louis Oklahoma City Charleston, S.C. Dallas (2) Houston (3)	Atlanta Wichita Louisville Tulsa Knoxville Memphis Nashville	$25 annual fee	5% markup
Warehouse Club (joint partnership W. R. Grace)	Chicago Akron Columbus Dayton Pittsburgh	Detroit	$25 annual fee	5% markup
Wholesale Club	Indianapolis Cleveland Milwaukee	Detroit (4) Cleveland	$25 annual fee	5% markup
Wholesale Plus	Fort Lauderdale	—	$25 annual fee	5% markup
Value Club	Austin El Paso San Antonio (3)	—	$25 annual fee	$5 fee + 5% markup

Source: *Chain Store Age Executive*

home centers, department stores, automotive stores and local wholesalers, the narrow sku selection is not serious competition to the overall retail market. The membership organizations probably take a larger portion of the local wholesale business through their sales to small restaurants, groceries, drug stores and offices, but there are no official estimates on this market share.

David Glass, president of Wal-Mart, which operates 11 Sam's Wholesale Clubs, says, "I don't see anybody moving as rapidly as they say. Everyone's talking about lots of units, but I don't see them going in as fast as they say they are."

Some observers put the number of potential markets at between 200 and 400.

Dan Barry, vp-Kidder Peabody, estimates that in their present format these outlets need 400,000 to 600,000 people in their market area to achieve profitability.

Glass points out that in this infant

industry. "We'll see dramatic changes in the next five years."

Retailers tend to be more bullish than analysts and consultants. "The difference in this new concept is that they are primarily wholesale businesses," says Price Savers' Grimm.

"Although the new warehouses are not so different from what went on 20 years ago—like Gulfco," says David Israel, president of Metro Cash and Carry of Illinois, "they were ahead of their time. Back then, groceries were still carried to the car. People were not ready for the self-service concept."

"Before people count the casualties, they should take into account the vitality of this business. Many people have never even seen a warehouse membership club yet," says Walter Teninga, president of the Warehouse Club, a three-unit, W. R. Grace joint partnership based in Chicago, which opened its first unit in 1983 and will operate five by the end of 1984. The ex-K mart and Price Club executive raised $3.5 million with an investor group to form the partnership with W. R. Grace.

Mervyn Weich, a nine-year Zayre employee, is president of BJ's Wholesale Club. It will number three units by year end, and has a five-year plan to open 25 units. While observers are reserving judgment on Zayre's potential impact on the market, its entry displays particular strength and the company is given kudos for the extensive research and planning it undertook before launching its first BJ's.

BJ's units opened their doors with $3 million to $4 million worth of inventory—a level that boosted operators such as Pace to the breakeven point in months. Less successful warehouses often started with only $1 million in inventory. Weich asserts that the goods are "first quality brand name," and analysts figure Zayre has the muscle to maintain top-drawer selection. Weich expects the BJ's units to break even, which he defines as "close to $30 million" in sales per unit, in the first year.

Wholesaling revenues may be the primary goal, but most of the current operators have not achieved the 60/40 wholesale/retail sales ratios they have targeted in homage to the Price Club. Wholesaling sales range between 43% and 80% of industry sales.

David Israel reports 80% wholesale sales at the three-unit, Swiss-owned, Chicago operation that he heads. While Metro Cash and Carry is grouped with other membership wholesale clubs, Israel feels the business is frequently misunderstood. "Small businesses can supply 100% of their needs here with consistent 52-week-a-year selection; most of these businesses are the reverse of ours."

Price Savers Wholesale Club is successfully meeting competition in the Salt Lake City market.

The sales numbers show that other membership operators are not the reverse of Metro, but certainly their emphasis is different. The merchandise allotment underlines that: 50% of mix is dry groceries, 25% is perishable groceries and only 25% is nonfood products, while other operators offer more of a retail selection within the limited 3,000 to 4,000 items they typically stock.

Ability to tailor merchandise mix to local demand will be a key to who survives in competitive markets

The ability to tailor the merchandise mix to local demand will be a key to who survives in markets where warehouses meet like competition. Indeed, most of the operators in this business take issue with the idea that membership warehouses rely on "opportunity buying." To the all-important wholesale side of the business, consistent selection is crucial. "Businessmen who run their own businesses have to have lines of supply they can count on," says Henry Haimsohn, chairman of Pace.

At present, players such as Wal-Mart's Sam's Wholesale Club, Pace Membership Warehouse, the Wholesale Club, Pay 'n Save's Price Savers Wholesale Club, Zayre's BJ's Wholesale Club and Costco have not tampered with The Price Club's very successful format and have no plans to do so in the near future.

The format calls for 100,000-sq.-ft. industrial style sites with bare bones fixturing and a minimum of amenities—to keep overhead down to about 8% of sales. The warehouses are not air-conditioned and the interiors are spartan. Manufacturers ship general merchandise that ranges from refrigerators to rubber bands into outlets that receive shipments and stock them in one day.

Advertising is minimal (generally less than 1½% of sales). Usually an opening direct mail campaign is followed by an occasional tightly targeted direct mailing gleaned from closely tracked customer information. Effective choice of customers before opening, and word of mouth after opening, are considered crucial.

MIS and data processing systems are sophisticated in the successful operations of this genre. The concept is simple—universal price look-up systems that track perpetual inventory. Prices are not marked on items but posted above displays while item numbers are entered at point of sale.

The inventory turnover goal is 18 a year—a record that only the Price Club has achieved so far, but that Pace (15), Sam's Wholesale Club (16-17) and The Wholesale Club (14) may duplicate in the next year or so.

Sites are cheap, usually in out-of-the-way industrial areas with rents to match—$2 or $3 per square foot. Land and buildings are leased on a long term basis—generally 10-year leases with renewal options to 25 years or more. Parking for 400 cars is considered *de rigueur*. Start-up costs range from about $5 million to $8 million per unit depending on the location and the level of inventory deemed necessary to open the doors. Shrink is practically nonexistent, the

The Wholesale Club expects to chalk up $150 million to $200 million from its seven units in 1985.

warehouses are densely staffed and each unit has just one entrance/egress door.

Payroll as a per cent of sales is slated for around 4%, but none of the retailers interviewed for this story would name current payroll costs. Staffing levels range from a low of about 70 employees per unit at the Wholesale Club to a high of 200 at Pace Membership Warehouse. And this may be one factor in the relative success of these operations.

John Geisse, chairman of the Wholesale Club, based in Indianapolis, did not plan an instant success. The first unit in his chain grossed $12 million in its first year with a loss of $1.1 million, but that was above plan. Projections to the original investors called for 1984 to be the breakeven year. And Geisse predicts that in 1985, the Wholesale Club will chalk up $150 million to $200 million from seven units, and net earnings of $4 million or $5 million.

Geisse has pinpointed and corrected a few factors that he thinks kept his business from a fast start. "We didn't do things as well as Sam's. We didn't have enough inventory to start. We opened with $1 million." Geisse explains that perhaps his traditional retail thinking got in the way. "My training told me that if you want to do $14 million, start with $1 million in inventory and turn 14 times."

One problem area that is not entirely in Geisse's power to correct is vendor credit. "Most of these businesses—except Sam's and the Price Club—are thinly capitalized." Vendors give strict credit limits to unproven businesses, and that can gum up the works when warehouses need inventory in a hurry to sustain high turns. "A vendor gives us a $1 million line of credit for 30 or 45 days. We can chew up inventory before the bill is due, but he says wait when you're over the credit limit. We have to get vendors to understand."

Getting vendors to understand is not a problem for the operators who have an established retail reputation and capital behind them. Wal-Mart's Sam's Wholesale Club, Zayre's BJ's Wholesale Club, Pay 'n Save's Price Savers Wholesale Club and W. R. Grace's joint-venture Warehouse Club have both a financial and psychological advantage in this regard.

Membership warehouses may not be playing in an open field anymore, but neither are they threatened with extinction and obscurity. Some operators who have experienced difficulty in certain markets still have plenty of other areas to cultivate. As one warehouse operator put it, "Those who deserve to stay in business will." Success will continue to confound the experts. After all, quips Geisse, "No one told Sam Walton that he needed populations of 100,000 to have discount stores; he did it in towns of 10,000." ■

—Molly Brauer

STRATEGY

Kroger stands tough against setbacks and invasions

When Kroger realized that a new market entry was about to move in on its territory, the nation's second largest supermarket retailer was swift to respond.

Price wars were launched, first in Memphis, where Malone & Hyde announced plans to open its first superwarehouse store, and then later in Indianapolis, when Cub Foods, a chain operated by Super Valu Stores, revealed it was moving in. Although these turned out to be expensive battles, Kroger's management was successful in hanging onto market share.

Kroger's price wars in Memphis and Indianapolis helped the chain hang onto market share

Therefore, this is likely to be Kroger's same response to the 200,000-sq.-ft. Hyper Shoppes, also a unit of Super Valu Stores, which opened its doors Oct. 16 in the 350,000-sq.-ft. Bigg's Place Mall in Cincinnati, right on Kroger's doorstep. The store is called Bigg's.

However, this is only one front on which Kroger is battling to come back from 18 consecutive months of disappointing financial results and to be again judged as one of the nation's most innovative and successful supermarket chains. Kroger posted earnings of $127.1 million, or $2.77 a share, in 1983, down 33.9% from $192.1 million, or $4.15 a share in 1982. Sales were $15.2 billion, up 3.2% over sales of $14.8 billion in 1982. Among its other strategies are:

- Achieving sharp reductions in operating costs through the attainment of concessions from many of its local unions;
- Withdrawal from market areas where it is unable to attain such concessions and where growth is seen as stagnant or actually on a downward spiral;
- The deployment of monies gained from the sale of stores in such market areas, into investments where it is hoped that the returns will be higher;
- Entering into the wholesaling arena through an agreement with Wetterau, the nation's third-largest independent grocery wholesaler. This move is intended to allow Kroger to retain a share of the action in certain markets where it has closed down its retail operations;
- Solving some of its problems regarding its manufacturing division through the Wetterau arrangement

Retail construction looms large in 1984

Top 25 spenders ante up $5.6 billion—but only some of that will go toward new construction programs

Encouraged by better financial results and bolstered by increased consumer spending, the most aggressive chains plowed their good fortune into investments for the future. The outcome? A record level of capital expenditures.

In fact, the top 25 spenders plunked down a whopping $5.6 billion this year for new-store construction, remodelings and expansion of existing stores. That represents a 19% increase over the $4.7 billion spent by the top 25 last year.

Once again, Safeway led the pack, with a budget of $639 million—up from $500 million. The nation's largest supermarket chain was slated to build 205 new stores this year, as compared with only 83 the year before, and the basic expansion vehicle is once again the 41,000-sq.-ft. superstore.

Sears, the fourth biggest spender last year, moved up to the No. 2 spot in 1984 on the strength of its plan to invest $573 million at the store level. That's a big hike over the $400 million the company spent last year, and an even bigger jump over the $251 million it spent in 1982. The bulk of Sears' 1984 expenditures are being devoted to major remodelings, which will remake 85 existing locations in the image of Sears' Store of the Future prototype. In addition, the company will launch 14 new locations in the same mold.

J. C. Penney also moved up—from the fifth spot to the third. In 1984, Penney invested $500 million, as compared with the $443 million it expended the year before. This represents some 200 updates of existing department stores as well as 47 new Penney stores and 20 new Thrift Drug stores.

Federated passed Kroger to tie Dayton Hudson for fourth place. This year, the diversified retailer will invest $400 million in capital programs, a markedly more aggressive stance than the one it took last year, when it spent only $325 million. That's the bill for more than 2 million sq. ft. of new retail space and a spate of redo's. But it should be noted that Federated's 1984 expenditures are still less than the $421 million that the corporation spent in 1982.

Some of the chains lower down on the list showed some even more impressive increases in their capital budgets. The May Co., for example, slated $250 million for expenses in 1984, as compared with $140 million in 1983. Wal-Mart beefed up its budget from $90 million to $200 million. R. H. Macy more than doubled its capital expenditures to $175 million from $80 million, and Albertsons went from $95 million in 1983 to $160 million in 1984.

When it comes to gross additions to space, however, Wal-Mart is again the undisputed champ. In 1984, the much-heralded Sunbelt discounter will tack on a whopping 7.8 million sq. ft. of new store space—a marked increase over the 6.4 million sq. ft. it added last year.

Wal-Mart's expansion this year is coming in the form of 105 Wal-Mart discount stores and six additional Sam's Wholesale Clubs (the chain's entry into the membership club phenomenon). What's more, the Bentonville, Ark.-based retailer will enlarge or relocate some 25 units.

The pay-off? Management predicts about $6 billion in sales for the year ending January 1985 and that would be a $1.5 billion improvement over the previous fiscal year's volume.

Safeway moved ahead of Dayton Hudson and Kroger to take over the No. 2 slot in new construction with some 6.7 million sq. ft., but Dayton Hudson also finished in the money with 3 million sq. ft. of new space.

Even though that level is down

Capital expenditures

	1984 (000)	1983 (000)
1. Safeway	$639,000	$500,000
2. Sears Roebuck	573,000	400,000
3. J. C. Penney	500,000	443,000
4. Federated	400,000	325,000
5. Dayton Hudson	400,000	475,000
6. K mart	390,000	320,000
7. Kroger	275,000	410,000
8. May	250,000	140,000
9. Wal-Mart	200,000	90,000
9. American Stores	200,000	140,000
11. Winn-Dixie	180,000	165,000
12. R. H. Macy	175,000	80,000
13. Albertsons	160,000	95,000
14. Lucky	152,000	140,000
15. Toys "R" Us	125,000	90,000
16. Stop & Shop	120,000	125,000
17. Associated Dry Goods	110,000	85,000
18. Supermarkets General	110,000	110,000
19. Carter Hawley Hale	105,625	138,000
20. Zayre	100,000	72,000
21. A&P	97,500	75,000
22. Melville	93,000	85,000
23. Jack Eckerd	92,400	76,466
24. Allied Stores	90,000	100,000
25. Payless Cashways	80,000	62,500

Source: Chain data and *Chain Store Age Executive* estimates considerably from the 5.3 million sq. ft. of retail property it built in 1983, Dayton Hudson's plans are still ambitious by most standards: 19 new Mervyn's, 12 new Target discount stores, about 70 new bookstores under the B. Dalton and Pickwick logos and four new Lechmere locations in New England.

A couple of retailers that fell off the new-space list last year and returned in 1984 were R. H. Macy and A&P. The former accomplished this by launching four new stores this year, including a Davison's in Gwinnett Place in northeast Atlanta and the company's first branches in Houston, Texas. Altogether, Macy's will build 770,000 sq. ft. of new space this year—netting out at 670,000 sq. ft. after the closing of an antiquated 100,000-sq.-ft. store.

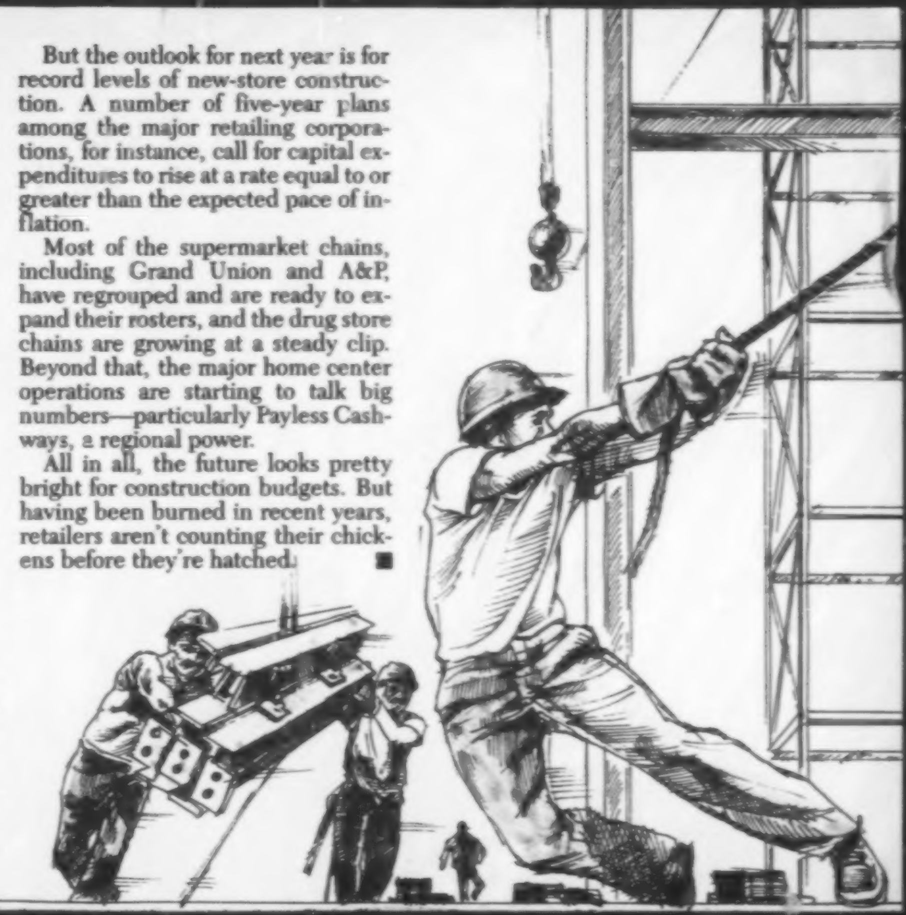
A&P rejoined the ranks of the Big Builders by embarking on a program that is expected to add 800,000 sq. ft. to its store base by year end. As the company intends to refrain from shuttering any existing units, A&P should finish the year with 1,022 stores.

Taken together, this year's top 25 on the new construction chart added 50.1 million sq. ft.—a little bit less than the 53.1 million sq. ft. built by the top 25 in 1983, due to the increased emphasis on remodels.

But the outlook for next year is for record levels of new-store construction. A number of five-year plans among the major retailing corporations, for instance, call for capital expenditures to rise at a rate equal to or greater than the expected pace of inflation.

Most of the supermarket chains, including Grand Union and A&P, have regrouped and are ready to expand their rosters, and the drug store chains are growing at a steady clip. Beyond that, the major home center operations are starting to talk big numbers—particularly Payless Cashways, a regional power.

All in all, the future looks pretty bright for construction budgets. But having been burned in recent years, retailers aren't counting their chickens before they're hatched. ■



Gross square footage added

	1984 (000)	1983 (000)
1. Wal-Mart	7,795	6,378
2. Safeway	6,700	4,340
3. Dayton Hudson	3,000	5,300
4. Kroger	2,488	5,033
5. K mart	2,400	3,400
6. Melville	2,146	2,200
7. Federated	2,088	2,527
8. Lucky*	2,077	1,423
9. Winn-Dixie	2,010	1,318
10. Toys "R" Us	1,830	1,100
11. May	1,500	1,175
11. Sears, Roebuck	1,500	1,000
13. U.S. Shoe	1,400	1,500
14. Albertsons	1,300	1,600
15. Zayre	1,280	2,000
16. American Stores	1,200	600
17. Associated Dry Goods	1,150	2,154
18. J. C. Penney	1,140	1,000
19. Stop & Shop	1,080	2,090
20. Jack Eckerd	959	850
21. Rite Aid	950	850
22. Service Merchandise	855	800
23. A&P	800	—
24. R. H. Macy	770	443
25. Payless Cashways	740	400

*1984 figure does not allow for sale of 240 Pic-A-Dilly and It's-A-Dilly stores to The Limited, which had been agreed upon at presstime

Source: Chain data and *Chain Store Age Executive* estimates

Net square footage added

	1984 (000)	1983 (000)
1. Wal-Mart	7,700	6,000
2. Safeway	6,000	4,800
3. Dayton Hudson	3,000	5,300
4. K mart	2,400	3,000
5. Winn-Dixie	2,010	510
6. Federated	2,000	1,826
7. Melville	1,958	2,000
8. Toys "R" Us	1,800	1,100
9. Lucky*	1,506	(7,500)
10. U.S. Shoe	1,385	1,500
11. Zayre	1,280	1,952
12. May	1,100	1,175
13. American Stores	1,000	600
14. Albertson's	1,000	1,500
15. Rite Aid	960	750
16. Jack Eckerd	950	830
17. Service Merchandise	855	800
18. Stop & Shop	833	1,890
19. A&P	800	—
20. Payless Cashways	740	400
21. J. C. Penney	730	500
22. Ames	720	2,334
23. R. H. Macy	670	423
24. Best Products	608	800
25. Allied Stores	489	838

Source: Chain data and *Chain Store Age Executive* estimates
*1984 figure does not allow for Lucky's sale of 240 Pic-A-Dilly and Its-A-Dilly stores to The Limited, which had been agreed upon at presstime
( ) Net loss

Safeway tops list again

Safeway's building program should result in an addition of at least 5.7 million sq. ft.

Safeway Stores once again holds the top spot among retail chains in capital expenditures.

By the time fiscal 1984 draws to a close at the end of December, Safeway expects to have fully utilized a budget of approximately $639 million, up 18% from Safeway's budget of $541 million in 1983 when the supermarket giant also outspent all other retail chains.

Like other supermarket companies, Safeway continues to invest substantial sums in the renovation and expansion of existing stores. However, at a time when many other chains have pulled in their horns somewhat when it comes to new store construction, it is also continuing to be aggressive in opening new stores, with a total of 205 planned for the current year. This is up a whopping 41.4% from last year when Safeway was also among the most expansion-minded chains in the industry.

As was the case in 1983, Safeway continues to emphasize "new business" stores which are located in communities or areas not previously served by Safeway. Eighty-three of these stores opened last year.

Budget rises 18% this year

	1984	1983
Stores in operation at end of calendar year	2,698	2,507
Total stores added in calendar year	271[1]	145
Square footage added in calendar year	5,700,000[2]	4,205,000
No. of stores closed	80	92
Total capital expenditures	$639 mil.	$541 mil.

[1] Includes acquisition of 43 Weingarten stores and 23 Thriftimart stores

[2] Does not include square footage added through 1984 acquisitions

Source: Chain data and *Chain Store Age Executive* estimates

Based on a reported average store size of 27,849 sq. ft., Safeway's store building program should result in an addition to gross square footage of at least 5.7 million sq. ft.

In actuality, this is likely to be somewhat larger as Safeway shows signs of continuing to concentrate on the opening of superstores. By definition, these exceed 35,000 sq. ft. in size and at Safeway they average 41,052 sq. ft. During 1983 Safeway opened 70 superstores.

However, in addition to store construction (and expansion) by the end of this year Safeway will have sharply increased its supermarket store count through an aggressive acquisition program. It began the year by purchasing 43 of Grand Union's Weingarten stores, approximately 30 of which are located in Houston, another nine in eastern Texas and seven in southern Louisiana. Then, in March of this year, it acquired 23 Thriftimart stores in Los Angeles.

In addition to the active expansion of its supermarket operations, Safeway is continuing its program of diversification with further expansion of its Liquor Barn operation (which totaled 90 units at the end of 1983) and its new DFL (Drugs for Less) experiment. With stores already in place in Dallas, Houston and Oklahoma City, Safeway is using DFL as a means of evaluating the potential of the deep-discount drug store business (*Chain Store Age Executive*, January 1984).

Like other supermarket chains, Safeway is, of course, well aware of the potential threat to its more traditional business from the superwarehouse stores. However, in this case, instead of waiting to judge what the impact might be, it is already gaining first-hand experience in operating such stores.

Safeway's latest move came in Florida where in June it opened an 84,000-sq.-ft. Pak 'n Save superwarehouse store in Tampa. This is being operated through Brentway Inc., a Safeway subsidiary acquired last year as part of Safeway's purchase of Brentwood Markets. ■

BIG BUILDERS/**SEARS**

The future Sears is here today

The Sears Merchandising Group has seen the future and it is now.

The company's plans to refurbish its stores into Stores of the Future is in full swing.

Under the program, more than 600 stores will be renovated and 62 stores built during the five-year period between 1984 and 1988, at a cost of $1.7 billion.

Following the opening of the prototype Store of the Future in King of Prussia, Pa., last year, Sears continued the program to end the year with 12 Stores of the Future. Seven were newly built and five remodeled. Of those seven newly built stores, four were in new markets and three were relocations.

During 1984, 85 stores are being remodeled into the new configuration. In addition, the company is opening 14 new Stores of the Future—three in new markets, 10 relocations and one enlargement.

Because Sears is already in most major markets, the company is focusing its attention on remodeling and renovating its existing stores, according to a spokesman for the company. Selling space is being added in existing facilities rather than through the opening of new stores.

Although the opening of last year's seven stores contributed over 1 million sq. ft. of space, the 25 closings resulted in a net reduction of 2 million

Sears' plans in full swing

	1984	1983
Stores in operation at end of calendar year	810	812
Total stores added in calendar year	14	7
Square footage added in calendar year	1,662,824	1,075,795
No. of stores closed	16	25
Total capital expenditures	$626 mil.	$360 mil.

Source: Chain data and *Chain Store Age Executive* estimates

sq. ft. Sears Merchandising Group ended last year with approximately 112 million sq. ft. of retail department store space.

Similarly, this year's opening of 14 stores is adding slightly more than 1.6 million sq. ft. Offsetting this is the closing of 16 stores for a net reduction of 631,814 sq. ft.

In addition, the company added seven Sears Business Systems Centers in 1983, bringing to 50 the total number of centers in operation at year end. The centers carry electronic equipment for small business needs.

This year, the company is opening 50 Sears Business Systems Centers and already has 40 more openings scheduled for 1985. Most will be located in larger metropolitan areas and some will even be combined with existing Sears retail stores, depending on space and market demographics.

Last year's capital expenditures of $360 million have been increased to $626 million in 1984. The company estimates that approximately $102 million will be spent on opening the 14 new Stores of the Future. The balance of funds will be used primarily to convert some 85 existing stores into the new configuration, improve customer service at point of sale and open the 50 additional Sears Business Systems Centers. ■

BIG BUILDERS/J. C. PENNEY

Major updating at Penney

The second full year of J. C. Penney's repositioning program has seen the full-scale modernization of approximately 34 more of the company's largest and most productive stores.

Last year, the company completely modernized 40 of its larger stores located in regional malls in major markets. In addition, it updated 160 stores last year as an interim step before modernization.

This year, about 200 stores underwent updating, which usually includes the reallocation of space to accommodate the new merchandise mix. At the same time, a more modern look is achieved through minor refixturing and recarpeting.

Penney's construction activity is due to a repositioning program that encompasses not only a revamping of merchandise carried, but also a new, more contemporary look for all its stores. The modernization program ranges from the complete reconstruction of interior space to the updating of individual departments.

To fund the program, the company's projected capital expenditures

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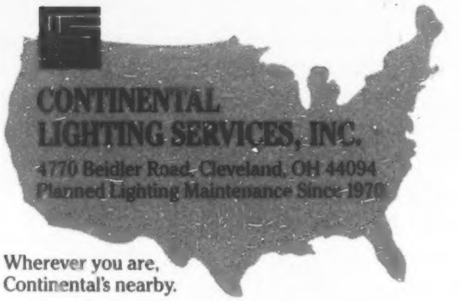

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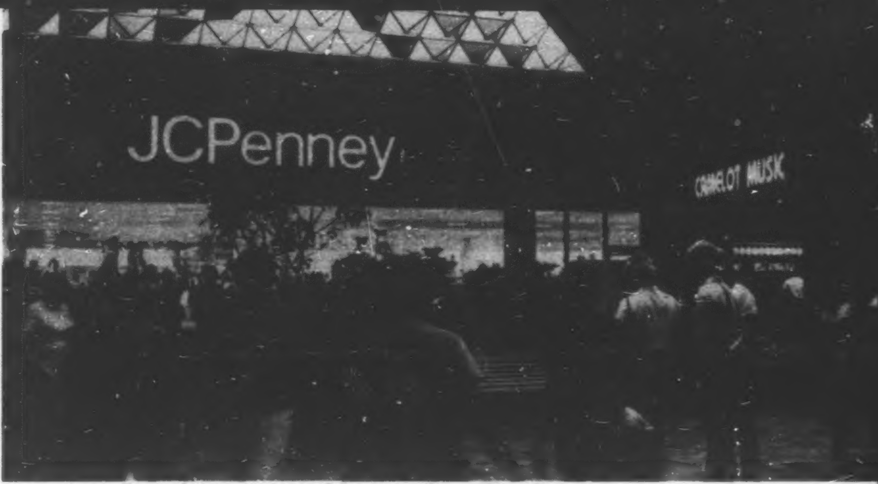
A more modern look	1984	1983
Stores in operation at end of calendar year[1]	1,901	1,958
Total stores added in calendar year	67	43
Square footage added in calendar year	1,140,000	1,000,000
No. of stores closed	62	71
Total capital expenditures	$580 mil.	$443 mil.

[1] Includes J. C. Penney and Thrift Drug stores
Source: Chain data and *Chain Store Age Executive* estimates



Cost per store for modernization ranged from $3 million to $4 million this year.

for the five-year period between 1984 and 1988 is expected to total an estimated $2.5 billion, of which $1.5 billion will be spent on updating its stores.

The estimated cost per store for modernization this year ranged from $3 million to $4 million, as compared to last year's $2 million to $3 million. The increase, according to the company, relates to the fact that larger stores were worked on in 1984.

While Penney notes that "physical expansion is important to future profitability," the company is presently looking more toward the improvement of productivity in existing space. To this end, the company spent $276 million of its 1983 capital expenditures of $443 million on modernizing and refurbishing its stores.

While a company spokesman could not confirm 1984's capital expenditures, it is expected to be somewhat more than last year's, with a similar emphasis of funds on modernization.

Last year's opening of 43 stores was divided between Penney units and Thrift Drug stores; 35 Penney stores were opened, while 69 were closed. Eight Thrift Drug stores opened, two were closed.

At year end, the company was expecting to open 12 department stores in regional shopping centers and 35 smaller stores in selected geographic markets during 1984. Also, 20 Thrift Drug stores were slated for opening this year, for a net addition of 730,000 sq. ft. of new store space. ■

BIG BUILDERS/**FEDERATED**

Federated concentrates on existing space

In 1984, Federated Department Stores will be shifting gears somewhat. Last year, only $57 million of the corporation's $300 million capital expenditures budget was devoted to expansions, remodelings and major maintenance programs in existing stores, while the remainder went toward the opening of some 2.4 million sq. ft. of new selling space. This year, Federated has earmarked a whopping $117 million for facelifts and overhauls, while adding only 2.1 million sq. ft. of new space.

It's plain that expansion is slowing down a notch while Federated does what many other smart retailers have done—placed additional money in the remodeling kitty. In recent years, most retailers have concluded that the return on investment is greater in reworking outdated, existing units than in launching new ones. This is especially true in the department store area, where the dearth of profitable sites and pressure from specialty store retailers have combined to limit new-store opportunities.

On the other hand, 2.1 million sq. ft. of new space is nothing to sneeze at. Some 50 new-building projects are slated for completion in 1984.

Shifting gears	1984	1983
Stores in operation at end of calendar year	888	861
Total stores added in calendar year	50	60
Square footage added in calendar year	2,088,000	2,396,000
No. of stores closed	1	13
Total capital expenditures	$400 mil.	$325 mil.

Source: Chain data and *Chain Store Age Executive* estimates

Bloomingdale's, for instance, will open a store in Miami this year. At the end of 1983, "Bloomie's" boasted 12 department stores in the Northeast and one in Dallas, Tex. The Dallas unit was its first foray into the Sunbelt, and the Miami store will be its second.

Rich's, Federated's department store entry in the Atlanta market, is also building a new branch in 1984—but it's a little bit closer to home. Rich's new store, its 18th in the Southeast, will do business in Atlanta. In addition, says a spokesman for the corporation, Rich's is involved in a heavy remodeling schedule.

Houston-based Foley's is another Federated chain that's in an expansion mode this year. Not only will Foley's open a department store in nearby Deerbrook Mall—its 12th in the Houston vicinity—it will also enter a new trading area, College Station, Tex., with "a store designed to meet the needs of the customer in this smaller market."

Goldsmith's, headquartered in Memphis, Tenn., is slated to complete a major remodeling of its Oak Court branch, one of the largest retail stores under one roof in the entire mid-South. This particular remodeling is an effort that began last year.

Bullock's, out of Los Angeles, is also investing in the remodeling route: last year, the chain revamped one store and began renovation on two others, in Northridge and Pasadena. The latter two were expected to reach completion in 1984, and the Century City branch was likewise tagged for an overhaul in the current fiscal year, ending January 1985. ■

Growth plan covers five years

Target closed out fiscal 1983 with more than $3 billion in annual sales and 205 stores.

This year, Dayton Hudson increased its capital expenditure program to $400 million, as compared with $377 million it spent last year (including new leases). About 105 new stores will emerge from that program, according to a spokesman for the corporation, and they'll represent about three million additional square feet. It's all part of a five-year plan to spend $2.5 billion through 1988.

The major recipient of that corporate largesse will be Mervyn's, the high-flying chain of "value-oriented" department stores that amassed $213 per square foot in sales in fiscal 1983, ended Jan. 28, 1984. In 1984, Mervyn's is adding 19 stores, including units in two new markets—Houston and Seattle/Tacoma. If all goes according to plan, the chain will encompass 128 locations with nearly 10 million sq. ft. by year end.

Dayton Hudson cautious

	1984	1983
[illegible]	[illegible]	[illegible]
Total stores added in calendar year	105	113
[illegible]	[illegible]	[illegible]
No. of stores closed	0	0
[illegible]	[illegible]	[illegible]

Source: Chain data and *Chain Store Age Executive* estimates

Target is also carrying out an ambitious expansion program. The corporation's aggressive discount operation closed out fiscal 1983 with more than $3 billion in annual sales and 205 stores. This year, plans call for 12 new units—including Target's first store in Lincoln, Neb., and a five-store blitz in Phoenix. The other half-dozen new stores are opening in Milwaukee, Los Angeles, Minneapolis, Oklahoma City and Denver.

But the most explosive growth that Dayton Hudson will engineer this year will actually take place under the Pickwick Books logo. Dayton Hudson's newest entry in the retail book market, Pickwick—a discount bookseller operation that the corporation still refers to as a "test"—will expand to the tune of 20 new units this year, for a total of 24.

Nor is B. Dalton, the corporation's well-established chain of full-price bookstores, being ignored. After adding 39 stores in 1983 to finish the year with a total of 701 units in 47 states, the District of Columbia and Puerto Rico, B. Dalton is launching about 50 new stores this year.

Lechmere, Dayton Hudson's New England-based hard lines retailer, will concentrate a large portion of its capital budget on remodeling. With three of its six stores recently overhauled, the remaining units were scheduled to undergo facelifts in the current year. In addition, Lechmere will bring four new stores on-stream by the end of next year.

The department store base on which the rest of the corporation was built is perhaps the only division that will not be adding stores this year. The corporation currently operates 54 department stores and has not changed that total in recent years. Operating under the Dayton's, Hudson's, Diamond's and John A. Brown logos, the stores embrace more than 10 million sq. ft. of retail space. ■

BIG BUILDERS/CARTER HAWLEY HALE

CHH cuts new store openings

The sale of Carter Hawley Hale's more than 800-unit Waldenbooks chain this past year has dramatically altered the company's square footage expansion, while estimated capital expenditures remain stable.

A multichain corporation with 1,085 stores in 1983, Carter Hawley Hale expects to end this year with 265 stores, roughly 24% of the number of stores it had a year earlier.

New store openings for this year also reflect the Waldenbooks sale. The 72 openings during 1983 predominantly consisted of the 3,000-sq.-ft. bookstore units. All told, last year, Carter Hawley Hale opened 51 Waldenbooks, 14 Contempo Casuals and seven department stores.

This year's 26 openings, slightly more than one-third of last year's, consist mainly of the slightly larger (3,100 sq. ft.-6,200 sq. ft.) Contempo Casuals units. Since the company purchased the then-79-store women's sportswear chain in 1979, its goal has been to expand nationwide.

The strategy calls for expansion into new markets throughout the South and the Midwest. By year-end, Carter Hawley Hale will have opened 24 Contempo Casuals, one Neiman-Marcus and one Emporium Capwell. Thirty Contempo Casuals are already slated to be opened in 1985.

New square footage has been cut in proportion to new store openings: 376,000 sq. ft. in 1984 vs. 1.1 million sq. ft. a year prior.

Expenditures remain stable

	1984	1983
[illegible]	[illegible]	[illegible]
Total stores added in calendar year	26	72
[illegible]	[illegible]	[illegible]
No. of stores closed	3	13
[illegible]	[illegible]	[illegible]

Source: Chain data and *Chain Store Age Executive* estimates

Despite the drastic reduction in new store openings, capital expenditures remained the same during 1984.

The 13 store closings that occurred in 1983 were slashed to only three this year. ■

Kroger cuts back 1984 building program

The Kroger Co., formerly one of the most aggressive supermarket operators when it came to investing heavily in the opening of new stores, has cut its 1984 capital expenditures budget for the second consecutive year.

Plans call for approximately $275 million to be spent during the current year on the construction and/or expansion of Kroger's food, drug and convenience store operations which also include the Dillon Cos., acquired by Kroger in early 1983.

This budget is down 25% from the $368.9 million spent last year when, in turn, the investment was 20% below 1982's $464.4 million budget. However, the 1983 figure was 13% above 1981's budget of $324.3 million.

The major reason given by Kroger for this latest cutback is related to the company's disappointing 1983 financial results. "Because economic recovery in several important states was slower than we projected, many of the new stores we had brought onstream over the past three years as part of our aggressive store building program didn't generate the sales we had planned," says Lyle Everingham, Kroger's chairman.

These disappointments caused Kroger executives to make the decision to "focus attention on improving the return on major investments made over the past several years" rather than to aggressively open new stores.

As a result, Kroger plans to have approximately 45 new Kroger Food Stores, averaging about 45,000 sq. ft. each, open by the end of this year, and about 50 store remodels. Dillon, which continues to be operated as a basically separate entity, plans to open seven new combination stores and to carry through eight remodels.

Even including Dillon's activities, this construction plan for the major food store operations is still down sharply from the 1983 program when Kroger opened 81 new food stores and remodeled 81.

SupeRx, Kroger's drug store division, anticipates having 12 new facilities open by year end, down dramatically from the 1983 figures when 65 new units were opened or acquired and eight were remodeled.

The only portion of Kroger's corporate business that is actually on a growth plan in terms of units added is Dillon's convenience stores. Plans call for 28 new units.

Meanwhile, much of Kroger's attention has been focused on the closing of stores. This isn't being done because the company believes that the stores are outdated or because the markets have dried up. Instead, Kroger management has been closing stores in markets where it is unable to get the kind of labor rate concessions from the unions that it believes it needs. It is estimated that by year end, Kroger will have closed approximately 185 of its supermarket units in such markets as Baton Rouge, Pittsburgh, Michigan and Ohio. None of the Dillon operations are affected.

As a result, while Kroger's addition to gross square footage for 1984 will total approximately 2,469,000 sq. ft., there will actually be a net loss of square footage of approximately 3,497,250 sq. ft. ■

Budget down 25%

	1984	1983
Stores in operation at end of calendar year	2,481	2,582
Total stores added in calendar year	92	154*
Square footage added in calendar year	2,469,000	1,580,000
No. of stores closed	185**	0
Total capital expenditures	$275 mil.	$368.9 mil.

*Includes some drug stores acquired
**Estimated based on outcome of ongoing labor negotiations
Source: Chain data and Chain Store Age Executive estimates

Allied to spend $500 million

In 1984, Allied Stores is budgeting for the net addition of 459,000 sq. ft.—comprised of four new department stores and 23 new specialty stores, minus a Harzfeld's store in Kansas City which was closed early this year.

The new department stores will be scattered all over the country. One is a Jordan Marsh in Waterford, Conn., which brings Jordan Marsh's New England holdings up to 17 units. A second was slated to open in Knoxville, under the Miller's logo, bringing that roster to 13 locations in eastern Tennessee.

The remaining two department stores are both branches of The Bon—one in Seattle and one in Idaho Falls, Idaho. The latter is a replacement of an older store, so The Bon will boast 37 units at year-end.

In addition, Allied will build two Brooks Brothers, five Ann Taylors, three Plymouth Shops and 13 Catherine's and Plus-Size outlets. The Ann Taylor additions represent a growth rate of 10% for the chain and will push its total retail space over the 200,000-sq.-ft. mark. The expansion of the Catherine's and Plus-Size operations remains one of Allied's priorities: by the end of the year, Allied will operate 181 of these "fuller-figure" shops.

If all proceeds according to plan, Allied will close the books on 1984 with 37.6 million sq. ft. of space.

The price tag for this expansion schedule is about $90 million, according to a spokesman for Allied. That's a bit less than the $100 million the corporation spent last year—but it doesn't indicate a less aggressive stance, says Allied. In fact, the diversified retailer's five-year plan calls for capital expenditures of $550 million in five years, through 1988. ■

Steady as she goes

	1984	1983
Stores in operation at end of calendar year	279	253
Total stores added in calendar year	27	45
Square footage added in calendar year	459,000	917,000
No. of stores closed	1	0
Total capital expenditures	$90 mil.	$100 mil.

Source: Chain data and Chain Store Age Executive estimates

← For more information circle 31 on reply card.

BIG BUILDERS/LUCKY

Spending more than ever

Lucky Stores this year has boosted its capital expenditures budget by a whopping 64% from the year earlier investment and up to the highest level in the company's history.

The 1984 budget, which totals approximately $200 million compared with 1983's $122.3 million (and which includes some owned real estate) is being used to expand the company's food and department store operations and to develop selected areas of Lucky's specialty store business.

Lucky's 1984 plans include the opening of 150 new stores, the expansion of food stores wherever possible and an emphasis on keeping existing facilities in first-class condition.

In the food store area, Lucky plans to open 29 discount centers, averaging 31,000 sq. ft. in size, and to close four. This will bring the year-end total to 447, an increase in net square footage of 881,000 sq. ft.

As in 1983, there are no planned openings of conventional supermarkets but seven closings are expected. Unlike 1983 when seven such renovations took place, none of the conventionals are this year being converted to the discount center format.

However, despite Lucky's recent moves away from the conventional supermarket business, 19 recently acquired stores do fall into this category, so by year-end the total number of such stores will be up to 157 for a net addition to square footage of 386,000 sq. ft. in this category.

Although having rid itself of the Memco division in early 1983, Lucky remains active in the department store market through its Gemco stores which average 110,000 sq. ft. in size. Plans call for the opening of three of these before year-end, for a total of 79 units. This will result in a net addition to square footage of 328,000 sq. ft. since no closings are being planned.

Lucky is also being aggressive with the expansion of its specialty retailing ventures, with intentions to open a total of 99 such units this year.

Specifically, it plans to open 14 apparel and small department stores. Although this part of Lucky's plan was originally intended to bring the year-end store count to 359 for a net addition to square footage of 54,000 sq. ft., Lucky has recently announced plans to sell off the 240 off-price apparel Pic-A-Dilly and It's-A-Dilly stores to The Limited. Lucky is retaining its Yellow Front operations.

There are also expected to be 65 new automotive stores debuting this year. These stores, ranging in size from 3,500 to 9,000 sq. ft., include Kragen, Checker and Honey's.

The third area of specialty retailing in which Lucky is involved is its fabric stores, including Hancock and Fabric Warehouse. Lucky intends to open 20 this year and to close five.

By the time the fiscal year ends Jan. 30, Lucky expects to have opened or acquired 150 stores and closed 46, and sold off 240 stores to The Limited for a year-end total of 1,493 retail units in operation and amounting to a net addition of 446,000 sq. ft., or 2,010,000 sq. ft. excluding the specialty store sell-off. ■

On a Lucky streak

	1984	1983
Stores in operation at end of calendar year	1,493*	1,629
Total stores added in calendar year	150	183
Square footage added in calendar year	2,237,000	[illegible]
No. of stores closed	46	64
Total capital expenditures	$200 mil.	$122.3 mil.

*Reflects sale of 240 Pic-A-Dilly and It's-A-Dilly stores to The Limited
Source: Chain data and Chain Store Age Executive estimates

BIG BUILDERS/SUPERMARKETS GENERAL

Super Centers play star role

Supermarkets General is having a busy year, planning to open as many as eight new Pathmark Super Centers and undertaking 15 major supermarket store renovations.

These efforts, however, account for only a portion the company's planned capital expenditures of $110 million, approximately the same amount spent during the previous year.

The Pathmark building activity is in addition to the acquisition of Purity Supreme, an operator of 28 supermarkets under that name along with 14 warehouse stores under the name Heartland.

Purity Supreme also includes 23 drug stores operating under the names Pharmacity and Heartland Drugs.

Beyond the company's activities in the supermarket/food store area, this year Supermarkets General intends to open four new Rickel home centers, including the chain's first units in Connecticut and Maryland, and eight freestanding drug stores.

The drug units include three deep discount drug stores in Baltimore, with each averaging approximately 25,000 sq. ft. Over the next five years, the company says, it intends to open more such units in Baltimore, as well as possibly expanding the concept to other geographic areas.

However, Supermarkets General is turning most of its attention, at least when it comes to construction and renovation, to its Pathmark operations. The major reason is obvious: the success of its Super Centers.

The company reports that the centers which were open for the full fiscal 1984, ended Jan. 30, 1984, produced an average volume of $26 million.

During 1983, Pathmark opened 15 Super Centers and converted 15 to this format. As a result, the company began 1984 with the highest proportion of new or recently modernized selling space in its history. ■

Having an active year

	1984	1983
Stores in operation at end of calendar year	284	199
Total stores added in calendar year	77*	14
Square footage added in calendar year	575,000	448,000
No. of stores closed	8	18
Total capital expenditures	$110 mil.	$110 mil.

*Includes acquisition of Purity Supreme but not 13 Heartland operations
Source: Chain data and Chain Store Age Executive estimates

Survey shows disparity in MIS use by chains

Management information systems (MIS) are used by 100% of all general merchandise retailers recently surveyed by Touche Ross & Co., a national accounting firm, while open-to-buy and general ledger systems are used by only 4%.

The survey shows the level of installations and development in a variety of categories, in a sample of 26 operating divisions of general merchandise chains.

According to Robert Bartlett of Touche Ross, the survey clearly indicates that the industry has come a long way from automation of basic accounting systems. He adds that the perception of the state of the art has shifted from merchandising systems to marketing and data-based systems.

The survey *(see accompanying chart)* also shows that 69% of the respondents have advanced MIS systems for their big-ticket items, 61% have advanced systems for making price changes and 35% have "state-of-the-art" systems for merchandise accounting.

Bartlett notes that there still is a great deal of disparity between individual companies' component systems priorities. In addition, he says, there is substantial polarization relative to state-of-the-art systems (the survey shows that about one-third of the surveyed divisions have them). The remaining companies often have no plans to implement them whatsoever.

Behind these statistics, Bartlett says, referring to the chart, is an industry that is polarized, confused and uncertain. By "industry" he means the retail MIS industry itself, with all the attendant problems facing retail management in general, such as burgeoning costs, high turnover and poor management communications.

This polarization in relative sophistication levels has helped fuel heated debate on two important issues, says Bartlett: the use of personal computers (PCs) and point-of-sale (POS) data-capture technologies. Popular MIS opinion on the potential benefits of the PC boom ranges from total rejection to open-armed embrace—with an open-ended supporting budget.

The question of how much to spend on MIS is a vexing one, Bartlett says. The retailing industry doesn't have a standard way of recording overall MIS costs. Published industry sources tend to understate the actual

Level of MIS in general merchandise industry

System	Current		
Basic	None	Batch	On-Line
Credit Authorization	—	—	100%
Flash Sales	—	58%	42
Accounts Payable	—	69	31
Payroll	—	69	31
Accounts Receivable	—	73	27
Fashion	4%	58	38
Sales Audit	4	61	35
General Ledger	31	65	4
Collections	35	27	38
Advanced			
Price Change	8	31	61
Salesclerk Productivity	8	58	34
Transaction Time	23	65	12
Basic Stock	27	58	15
Big Ticket	31	—	69
Merchandise Planning	38	35	27
P.O.M.	46	—	54
Class O-T-B	61	35	4
State of the art			
Mdse. Acctg. Database	65	—	35
Gift Registry	65	4	31
Customer Info. Database	73	8	19

Source: Touche Ross & Co.

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expenditures, or group them with operating costs. As a result, he says, many industry observers have used a "1% of sales" rule of thumb. Generally, this figure is assumed to exclude POS costs for operational POS networks, just as voice telephone network costs are treated as operational expenses.

The survey, however, leads Touche Ross to believe that the actual average rate is closer to 2%, says Bartlett. "Naturally, there is no easy way to compute this. But by putting together known MIS expense data and two key measures, we can demonstrate that, for the major department stores, this figure is well over 1.5%."

The two key measures were the amount of data processing power used and the number of data processing professionals engaged in developing and implementing systems. "Our research indicates that the nature of the people and equipment used varies dramatically, but that these measures are the best readily available indicators of the cost of a large-scale MIS program."

The data processing power of a computer can best be measured in terms of MIPS (millions of instructions per second). The data processing power employed by a company can be derived by adding up the MIPS of each computer and minicomputer installed. "Our analysis shows that the department store industry has an average of 12 MIPS per billion dollars of sales. It also employs just over 40 systems professionals per billion dollars of sales. Around these averages are a wide range of MIS investment levels," says Bartlett.

So how much is enough? It's hard to say, he replies, but any user-driven (bottom-up) systems planning process is probably on the right track, suggesting a company raise its expenditures to these average levels.

The reason Touche Ross took its survey of department stores was to get some answers as to what levels and types of resources are required for MIS programs.

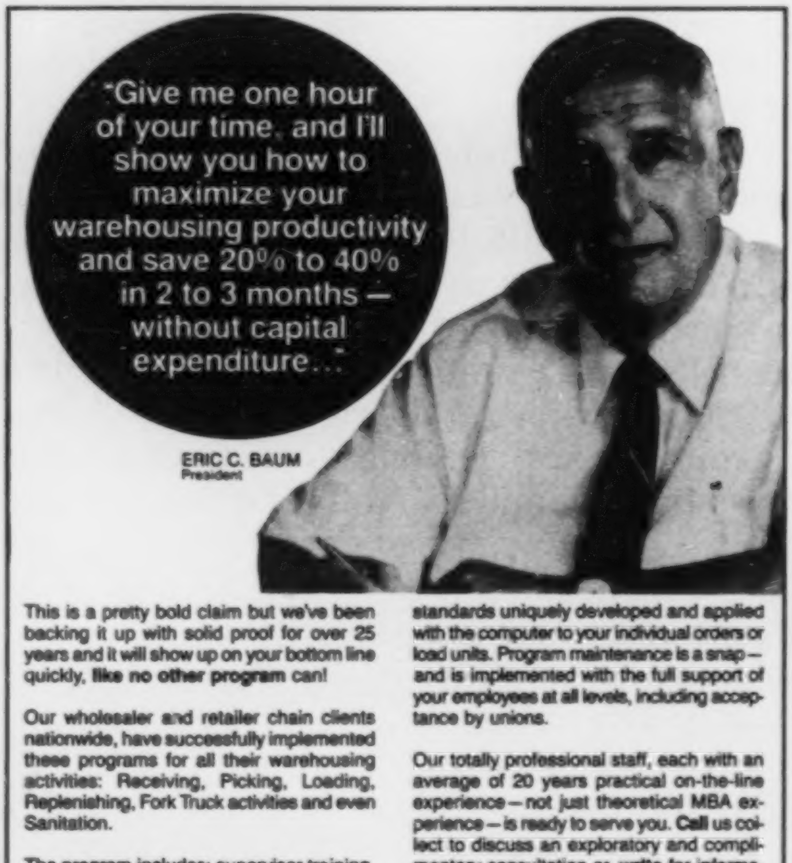
The department store industry employs over 40 systems professionals per billion dollars of sales

Historically, Bartlett says, department stores have pioneered the use of data processing technology, although in recent years the supermarket industry leaped ahead through the use of bar codes and laser checkout scanners.

Of course, he adds, the department store industry with its hundreds of thousands of sku's, wide variety of merchandising and service strategies, and volatility in the nature and number of its resources has a much greater problem in getting integrated technologies to work.

Comments Bartlett: "Indeed, it is very difficult to get the retail ceo, gmm, and cfo in any general merchandise retail company to agree on a definition of the state of the art or what is an appropriate amount of money and effort to be spending on the MIS program."

In addition to the levels and types of resources required, Touche Ross also wanted to know what realistic expectations about the nature and sophistication of the resultant systems could be expected. Further, he adds, what does the future hold in terms of the state of the art and the new information systems priorities? ■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